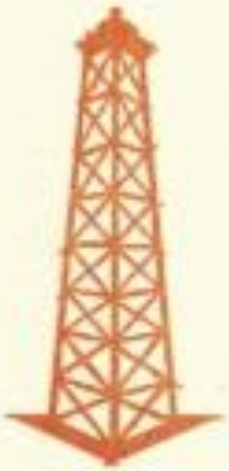
WE FIGHT FOR OIL

BY LUDWELL DENNY

"It is even probable that the supremacy of nations may be determined by the possession of available petroleum and its products." —PRESIDENT COOLIDGE



532193
9. 1. 52

NEW YORK ALFRED·A·KNOPF LONDON

1928

We Fight for Oil

Ludwell Denny

"*It is even probable that the supremacy of nations may be determined by the possession of available petroleum and its products*." —President Coolidge

Alfred A Knopf, 1928

CHAPTER ONE
Concerning the Larger Anglo-American Conflict

A HISTORY of the oil war must wait. The war is not over. Contemporary records can be set down by observers in different countries. From many such incomplete reports future historians may round out the story.

Origins of the struggle have been studied by several men, most of them Europeans. They described the rivalry among the Powers over petroleum riches of Russia and the Near East in the period immediately following the Great War. No one, apparently, has attempted to bring the record down to the present.

Since 1925 the battle lines have shifted. The struggle for Russian resources has grown more bitter. Another Mosul dispute is in the making. The Mexican situation has completely changed. There are new and more important fronts. In Venezuela and Colombia, Great Britain is manoeuvring for position dangerously near the Panama Canal.

The British Government is directly involved. It owns and directs the most aggressive company in this international competition. While British companies help drain diminishing reserves of the United States, Great Britain excludes American companies from most of the petroleum lands of the Empire.

To meet the emergency the Washington Government exerts a "strong" policy. It formally challenges British oil imperialism, protests nationalization laws of Mexico and other foreign fields and markets. Fearing a domestic shortage, Washington wants foreign reserves essential to the nation in peace and war. Subsoil supplies in the United States are sufficient theoretically for only six years at the present consumption rate, according to the Federal Oil Conservation Board.

Anglo-American strife over foreign resources has become a major factor in international affairs. *The British perhaps have been more militant, because their need has been until now so much greater than ours. But in motive and in method there is little difference between the contending forces*.

Oil diplomacy in London and Washington is determined by commercial and military considerations. It is hidden most of the time. Corporations do not reveal their secrets. Governments do not publish their army and navy war plans. But sometimes when hard pressed a Sir Henri Deterding and a Standard Oil official try to gain public support by telling the worst about each other. Or a diplomatic note shows the close connexion between foreign policy and commercial rivalry.

Then one sees that this oil war is not important in itself. It is significant only as part of a larger struggle for world mastery between two great economic empires. Seen alone it seems fantastic, impossible; against the background of the wider conflict it appears tragically inevitable. There would be no serious oil war had not America suddenly grown into an empire threatening Great Britain's long commercial and naval supremacy.

Modern international power is economic. The nation which controls oil and other raw materials, foreign markets, and credits will rule the world.[1]

Before the Great War the United States was a debtor nation, owing the world $5,000,000,000. By 1927 the world owed the United States $25,600,000,000. Great Britain at the height of her power as world banker had less than $20,000,000,000 of foreign investments. Foreign debts to the United States Government total more than $11,000,000,000. Foreign investments of Americans in 1927 amounted to $14,500,000,000, and were increasing at a rate above $2,000,000,000, a year. The world is paying America an annual tribute, in dividends and interest alone, well over $1,000,000,000. The yearly American foreign trade turnover exceeds $9,000,000,000.[2]

This economic power carries inevitable international responsibilities. Political isolation—ordained by the fathers of the Republic as the basis of American foreign policy—ceased with the Spanish-American war and resulting territorial expansion overseas. "Isolation is no longer possible or desirable," President McKinley said. Later President Wilson for a time convinced a sceptical America that: "We are participants whether we would or not in the life of the world. The interests of all nations are ours also. We are partners with the rest. What effects mankind is inevitably our affair as well as the affair of the nations of Europe and Asia." We could not keep out of the Great War. From that vast destruction of men and wealth, other Powers both victor and vanquished emerged terribly weakened. The balance of international power moved westward toward America.

The United States became an economic empire, circling seas and continents, penetrating the very capitals of older empires. Now no major development can occur in any foreign country without touching some American interest.

America apparently cannot stop the historic process which is extending her empire. She cannot escape the accompanying entanglements. With Europe poor from the war, with undeveloped continents opening to exploitation, America's surplus wealth will continue to flow outward. To protect that wealth, American diplomacy follows. And sometimes American battleships.

American entanglements abroad are only a matter of degree. In western Europe our political influence is exercised indirectly, as in the Dawes reparations system or in the credit embargo against France. In eastern Europe and the Near East there are American financial advisers with almost as much authority as dictators. In Liberia, America rules in all but name. We share in China with other Powers control of tariffs and finance, maintain our own courts and army.

In the Western Hemisphere, under a much-stretched Monroe Doctrine, our control is wider. The Caribbean is an American lake. No Central

American government can defy the will of Washington and live. Virtual American protectorates extend over Cuba and Panama. American marines occupy Haiti and Nicaragua. In 14 of the 20 Latin American republics, there is some form of fiscal, political, or military power wielded by the United States.

There is also our territorial empire, acquired by purchase or conquest—the Philippines, Alaska, Hawaii, Guam, Porto Rico, and the Virgin Islands.

But these territorial possessions and larger economic domains are not enough. We reach for more. And as we extend our power over other peoples, they rise up to curse us.

The peoples of Europe envy and distrust us. European governments discriminate against our trade. We have outlawed Russia. In China our gunboats and marines must protect Americans from anti-foreign frenzy. Throughout Mexico and Latin America we are hated and feared. Japan, humiliated by the insult of immigration exclusion and suspecting our Pacific policy, watches and waits.

Overshadowing all stands Great Britain, blocking the path of American empire. Empire is built on sea supremacy, foreign markets, and control of raw materials such as oil. Without these the British Empire cannot continue dominant. Without these the American empire cannot rise. Hence the conflict. Despite hands-across-the-sea speeches and talk of Anglo-American unity, the two empires are now in combat on the economic fronts of the world.

Great Britain enters this conflict with the advantages and disadvantages of age. She has possession of much of the earth. She has imperial experience. But most of her vitality is spent. She finds it increasingly difficult to rule her own household. Her organization and technique are of a past age. The territorial type of empire seems ill adapted to the future. While she faces encroachments of a newer competing empire,

she must reconstruct her Empire into a so-called commonwealth.[3] And still the revolt in India, in Egypt, grows.

America enters the conflict with the handicap and strength of youth. With the physical security of two ocean barriers, with natural resources making her uniquely self-sufficient in an emergency, and enriched by war which impoverished her competitor, America is formidable. Her daring compensates for her inexperience in empire building. Driven by a self-righteous faith in American civilization, she has the crusader's zeal and unscrupulousness which has usually conquered others.

There is a growing number of economists who believe that any permanent revival of Great Britain as the world's industrial centre is highly improbable. [4] Her past commercial dominance was achieved by acting as "middleman" for eastern Europe and backward continents, converting their crops and minerals into goods which she re-sold to them. Now that those undeveloped countries are becoming industrialized, there is less need for the British middleman. Unfortunately for England she has no adequate agricultural industry which she can develop to compensate for her commercial losses.

Industrialization of backward countries not only restricts the market for certain manufactured products, such as cotton goods which have been England's chief stock in trade; it creates other markets for machinery and products of light industry. Anglo-American commercial competition is thus intensified by the restriction of old markets and emergence of new ones.

Great Britain is less able than the United States to meet such competition. Our favoured geographic position, efficient production methods, and larger credit facilities, enable us to supply developing countries with most of the industrial machinery required by them. These advantages bring them to us as the logical market for manifold accessories of "civilization" which primitive countries demand in becoming modernized. More than Great Britain, the United States is sharing in the industrialization of South America and Asia, indirectly by

furnishing desired financial capital and directly by ownership of industry in the new areas.

To compete effectively with her American rival in a changing world market, Great Britain is "Americanizing" her industrial plant and sales system. The Mackenzie Delegation of Inquiry, composed of British employers and trade union officials searching for causes of American industrial superiority, came to this country in 1926. Their report, issued by the British Ministry of Labour, stressed the following factors:

The United States' natural resources and raw materials, its freedom from internal trade barriers and tariff walls, industrial technical efficiency, simplification processes, standardization of products, cheap power, Prohibition's effect on the population as producers and consumers, and co-operation between capital and labour. "Organized labour have accepted what may be termed the machine-age as an inevitable development of modern industry," according to the Delegation. "It is their avowed policy to co-operate with management [employers] to the best of their ability in increasing production."

The report might have added that American organized labour is weaker in numbers and influence, and much less class conscious than British labour. One-quarter of American workers in the manufacturing, mining and transport industries are trade union members, compared with almost one-half in Great Britain. Organized labour in this country has little effective control of production, except in the clothing industry. In Great Britain labour increasingly controls most basic industries, at least in negative manner. British labour's superior power comes not only from larger organized numbers driven by fear of poverty, but also from a political Labour Party and unions organized by industries in addition to the craft-union American system. Whatever may be the ultimate merits from the workers' standpoint of class war unionism compared with the "co-operative" policy of the American Federation of Labour, the latter gives American capital an advantage over British capital in the competition for domestic and foreign markets.

"The penalty of commercial and industrial efficiency inevitably is war," Rear-Admiral Charles P. Plunkett, commandant of the Brooklyn Navy Yard, declared January 21, 1928, in defence of the proposed Coolidge $500,000,000 naval program. "If I read history correctly, this country is nearer war than ever before, because its commercial position today places us in competition with other great commercial nations"[5]—meaning Great Britain. Was he indiscreet to reveal publicly the American naval mind? Of course there were official denials. But they do not alter the fact, which can be verified by examining our naval building program or by talking with almost any naval officer.

Rightly or wrongly, we are actively preparing for the Anglo-American war which our naval men believe will be fought to determine commercial supremacy. The American people are now less opposed than formerly to such preparedness against Great Britain. They think—justly or unjustly—that Great Britain at the Coolidge Geneva Conference tried to trick America into permanent naval inferiority and refused American pleas for equality. To understand this attitude, fostered by United States officials, one must start with the Washington Arms Conference.

Secretary of State Hughes opened that Conference with the proposal for a 5-5-3 ratio as among Great Britain, the United States and Japan. Lord Balfour, head of the British Delegation, accepted that ratio. This was to be expected since Great Britain in confidential negotiations with the United States had been first to propose both the Conference and the "Hughes plan." By that plan and its acceptance in treaty form, Great Britain checked the American capital ship program which threatened British supremacy. Great Britain did not have enough money to win a capital ship building race; therefore she called it off, declaring it a tie. Moreover, the Great War had increased doubts of most naval men as to the importance of capital ships. There was less incentive for unrestricted building of expensive ships which might soon become obsolete. Naval strategy was turning to smaller ships and newer weapons, the light cruiser, destroyer, submarine, and aircraft. These auxiliary craft are the

weapons of commercial rivalry, for blockade, for protecting and for attacking merchant shipping and trade routes.

Great Britain came out of the Washington Conference with her sea supremacy more secure than when she went in. By limiting expensive capital ships, in which she was about to be surpassed, she made cheaper cruisers the gauge of naval strength. She had more modern cruisers than the United States and all other Powers combined.

This result of the Washington Conference was achieved partly by skilful British diplomacy and partly by France's refusal to abolish or limit submarines. With the submarine their only effective security against England in a possible war for European hegemony, the French would not sacrifice this inexpensive weapon. Unable to force abolition of the submarine, Great Britain prevented cruiser limitation. Mr. Hughes, despite protest of the American naval experts, first granted parity in capital ships in which America was potentially stronger, and then begged unsuccessfully for equality in cruisers in which Great Britain was stronger. Being weak in cruisers, the United States had nothing left with which to bargain. She watched the Conference break up, leaving Great Britain mistress of the seas through cruiser superiority.

The American public was inclined to blame France for preventing complete naval limitation. But the American admirals said: The British have trimmed us again.

After the Washington Conference London started a large cruiser building program, widening further the gap between British and American strength. Then the American admirals were able to force from an "economy first" Administration a pledge to close that gap—either through a treaty establishing cruiser parity, or by building more Yankee cruisers. The admirals said: It is no use to try for treaty equality because the British never will grant that until we are stronger than they are. Mr. Coolidge replied: Give them a chance. So the President in his message of December 1926, asked Congress to postpone its cruiser program pending efforts for a limitation treaty.

As a result of the abortive Geneva Conference this Government is now convinced of the accuracy of the navy's traditional contention that Great Britain—or at least the Tory Government—is determined to "rule the waves" through cruiser superiority. Rightly or wrongly, Washington believes London rejected the several American proposals at Geneva because they involved a paper equality, and that every British proposal was an attempt to prevent either paper or actual parity.

Granting the British argument that their longer Empire lines and trade routes require for defence more cruisers than the United States needs, their refusal to grant paper parity at Geneva helped create a situation in which not only the American Navy Department but a majority of the American people demand a large building program. However sincere the Admiralty's policy at Geneva may have been, it is difficult to understand what Great Britain expects to gain by it. The United States is preparing for war, as Rear-Admiral Plunkett indicated.

Both nations would lose by war. But Great Britain would lose more. Whatever happened to America, Great Britain would cease to exist as a world empire. The reasons are obvious:

The United States plans to have naval equality or superiority before hostilities begin, if there is to be a war. America's only major weakness, lack of an adequate merchant marine for service of supply and naval auxiliary, will be less acute probably within the next decade. America is vastly superior in manpower, raw materials, food supply, financial reserves, and natural defences. Great Britain would have serious labour and political disaffection at home probably, and native independence revolt in many of her colonies. Great Britain is exposed to air and submarine attack by her European neighbours, some of whom might welcome an opportunity to complete her downfall. Not that they love us but that they hate Great Britain more, as the nearer of two encroaching empires. Compared with this British disadvantage in war, most of the United States' potential enemies such as Mexico and the Caribbean states are relatively powerless. Direct Canadian intervention would be

improbable and not decisive in any event. Even if Japan joined Great Britain to capture the Philippines and Hawaii, the attacking allies would still have to cross half the Pacific Ocean to threaten the American mainland. It is more probable that Japan would join the United States, or at least remain neutral in the hope that her two chief adversaries would destroy each other. Though Great Britain were unexpectedly the naval and military victor, she would have received external and internal injuries from which the aged Empire could not fully recover.

Doubtless everyone in Great Britain realizes this—except the Tory minority which controls the Admiralty and Foreign Office. But apparently few Britons of any party realize that the United States will soon be ready to fight to attain commercial and naval supremacy, unless Great Britain without war will share control of raw materials, markets, and the sea. The capitalists, politicians, and admirals who direct the American empire may lose; but they will not be bluffed by the British imperialists.

There are of course powerful personages in both countries seeking a compromise. The American naval program, American capture of more British foreign markets, and increasing American control of world credit, may make even the British Die-Hards cry for compromise. Great Britain's hold on three-quarters of the world's oil reserves, her near monopoly of rubber and other essential raw materials,[6] and the fact that an economic-financial empire such as ours can profit more from productive peace than from destructive war, may in turn convince American imperialists that compromise is the better way.

Any compromise agreement would be in effect an Anglo-American economic and political alliance, even though partial. It would tend probably to take the following form: Naval parity and joint control of the seas; a free hand politically for Great Britain in her colonies and spheres of influence in exchange for a free hand for the United States in Latin America, with Great Britain ultimately to get out of British Honduras and Jamaica and immediately stop concession-hunting in

Panaman, Colombian and other territory commanding the Panama Canal; Britain to agree not to encourage dismemberment of China and not to seek special commercial advantages there; the United States to hold the Philippines, and to that extent prevent Japanese expansion or further nationalist revolt in the lower Far East and India; the United States to scale down its high tariff wall to let in British goods, and hasten war debt cancellation; both Governments to practise the Open Door policy in regard to raw materials and markets in their territories and spheres of influence, except in strategic areas such as Panama and Suez; relaxation of restrictions against British shipping in American coastwise trade; freedom for nationals of each country to form international commercial combines; abolition of the British exclusion policy preventing American ownership of petroleum lands, and equitable division of joint exploitation by British and American oil companies of new foreign fields.

Such a complete economic and political alliance could not be formed, or at least not in one sweep. But an informal entente in incomplete form, beginning with the points of worst friction such as naval, communications, and oil rivalry, may be sought by both Governments to prevent ultimate war.

Possibility of an Anglo-American bloc has long been foreseen and dreaded by Latin and Oriental peoples. They fear that empire alliance, with its vast concentration of economic and political force, would master the world as no other power of church or state has ever done.

For better or for worse, then, it is possible the declining empire as the price of survival may make terms with the rising empire before the Anglo-American economic conflict ends in actual war.

Meanwhile, America has doubled the size of her pre-war army, trained a large military reserve force, projected the biggest naval program in her history.

And the struggle for oil goes on, menacing this flimsy peace.

1. Cf., New York *International Conciliation*, Jan. 1927, "Raw Materials and Their Effect upon International Relations;" a general bibliography and reprint of articles by George Otis Smith, L.L. Summers, E. Dana Durand, Parker Thomas Moon, and Edward Mead Earle.

2. New York *Foreign Policy Association Information Service*, Supplement, March 1928, Max Winkler, "The Ascendancy of the Dollar." Dr. Winkler's figures are higher than official estimates. Cf., Commerce Department, T.I.B. No. 503, *The Balance of International Payments of the United Slates in 1926*; and T.I.B. No. 507, *Foreign Trade of the United States, 1926-27*.

3. Cf., New York *International Conciliation*, March 1927, "Inter-Imperial Relations Committee Report, 1926."

4. Cf., New York *Foreign Affairs*, July 1927, article by Clive Day.

5. New York *Times*, Jan. 22, 1928.

6. Cf., Commerce Department, T.I.B. No. 385, *Foreign Combinations to Control Prices of Raw Materials*. Ibid., press release, Nov. 1, 1925, address by Secretary Hoover at Erie, Pa.

CHAPTER TWO
The Oil War Begins

OIL is "as necessary as blood in the battles of tomorrow." That was Premier Clemenceau's appeal to President Wilson for American petroleum in the winter of 1917. "The safety of the Allied nations is in the balance."[7] After the war was won, Lord Curzon told the story: "The Allies floated to victory on a wave of oil."[8]

Then the peace conferences—and the fight of the victors over the oil spoils. When Great Britain and France in 1919 were getting ready to divide the Near East between themselves in mandate form, M. Henri Berenger prepared a memorandum for his Government. M. Berenger, a French industrialist and senator, had been war-time Oil Commissioner and was to be Ambassador to Washington. The memorandum contained this warning:

"He who owns the oil will own the world, for he will rule the sea by means of the heavy oils, the air by means of the ultra refined oils, and the land by means of petrol and the illuminating oils. And in addition to these he will rule his fellow men in an economic sense, by reason of the fantastic wealth he will derive from oil—the wonderful substance which is more sought after and more precious today than gold itself."[9]

How natural that this life blood of nations in war and peace should determine diplomacy. These years since the Armistice are described as the period of "the oil war." The crisis is ahead. Here are some of the reasons:

Every large nation must look outside its own territories for an essential reserve. The United States has less than 12 per cent of world reserves. Great Britain within the Empire has six per cent. Others have less.

About 70 per cent is in countries whose weakness invites economic and political encroachment by major Powers. This applies especially to the Mexican Gulf-Caribbean region, the Near and Middle East, and Russia.

In self-defence many of these oil-bearing countries have passed laws vesting subsoil rights in the native governments, and laid down restrictive regulations, royalties and duties. This defiance of claimed property rights of foreign nationals is used by the Powers to justify diplomatic pressure and, in extreme cases, military intervention.

Large capital investment, often such as only American or British companies can provide, is necessary for successful exploration and production. Unusually large expenditure is required in most of these countries. Their resources can be tapped only by long pipe-lines across mountains, desert, or jungle to the sea. That is the situation in Persia, Mosul, Colombia, and less important fields.

Often a second weak country or territory is the only practicable outlet for otherwise inaccessible deposits; as the outlet for the south Persian field through the Baktiari tribe region, the Russian Caucasus gateway for the north Persian field, the projected pipe-lines across Syria or Palestine to tap Mosul in Iraq, and the Venezuelan passage out of the east Colombian pool. Thus the battle of foreigners for one field may extend from the producing territory to the transit country.

There is a larger international issue. An approximate balance between several Powers in an oil war might result in an armistice, so the strong could divide the riches of the weak. But two Powers have gained control of most of the world reserves. Great Britain and the United States are fighting for supremacy. The United States is losing. Great Britain has grabbed three-quarters of the Earth's known supply. Let a Briton describe the situation.

"America has recklessly and in 60 years run through a legacy that, properly conserved, should have lasted her for at least a century and a half," according to Sir Edward Mackay Edgar, British petroleum

banker.[10] "Just when Americans have become accustomed to use 20 times as much oil per head as is used in Great Britain; just when invention has indefinitely expanded the need for oil in industry; just when it has grown to be as common and as true a saying that 'oil is king' as it was 20 years ago that steel was king; just when the point has been reached where oil controls money instead of money controlling oil—the United States finds her chief source of domestic supply beginning to dry up and a time approaching when instead of ruling the oil market of the world she will have to compete with other countries for her share of the crude product. ... The British position is impregnable. All the known oil fields, all the likely or probable oil fields, outside of the United States itself, are in British hands or under British management or control, or financed by British capital."

Sir Edward's apparent desire to crow over a defeated America led him to exaggerate in that now famous and regretted article in 1919. Nine years later the British boast is nearer the truth.

Sir Edward's statement leaves out the vital factor. That is the British Government. The struggle is not alone between American and British capital. It is between American capital and the London Government. Of the two dominant British companies, the London Government has close unofficial relations with one and has direct controlling ownership of the other. That makes oil an international explosive.

To equalize the contending forces American petroleum princes have sought State Department support. "The only thing needed now is an aggressive foreign policy on the part of the United States," was the plea of Mr. A.C. Bedford, late chairman of Standard Oil of New Jersey. "All proper diplomatic support in obtaining and operating oil-producing property" abroad was recommended by the Federal Trade Commission in 1923.[11]

Such prodding was not needed by the State Department. Since 1902 its consuls had been active in behalf of Standard and other American companies abroad.[12] As the Anglo-American competition intensified,

the Department from time to time had reminded its foreign representatives of their duties in this connexion. Specific instructions were sent by the Department to all United States diplomatic and consular officers on August 16, 1919, as follows:

"Gentlemen: The vital importance of securing adequate supplies of mineral oil both for present and future needs of the United States has been forcibly brought to the attention of the Department. The development of proven fields and exploration of new areas is being aggressively conducted in many parts of the world by nationals of various countries, and concessions for mineral oil rights are being actively sought. It is desired to have the most complete and recent information regarding such activities either by United States citizens or by others.

"You are accordingly instructed to obtain and forward promptly from time to time information regarding mineral oil concessions either proposed or granted, sale or transfer of such concessions, change of ownership of oil property or important changes in ownership or control of corporate companies concerned with oil production or distribution. Information regarding development of new oil fields or increased output of producing areas should also be forwarded. Comprehensive data are desired and reports should not be limited to points specifically mentioned above, but should include information regarding all matters of interest affecting the mineral oil industry which may arise from time to time.

"You are also instructed to lend all legitimate aid to reliable and responsible United States citizens or interests which are seeking mineral oil concessions or rights. Care should be taken, however, to distinguish between United States citizens representing United States capital and United States citizens representing foreign capital; also between companies incorporated in the United States and actually controlled by United States capital and those companies which are merely

incorporated under United States laws but dominated by foreign capital."[13]

Mr. Charles Evans Hughes testified before the Coolidge Federal Oil Conservation Board: "The foreign policy of the Government, which is expressed in the phrase 'Open Door,' consistently prosecuted by the Department of State, has made it possible for our American interests abroad to be intelligently fostered and the needs of our people, to no slight extent, to be appropriately safeguarded."[14] The former Secretary of State and present counsel of the American Petroleum Institute and Standard Oil speaks with the authority of experience.

If the British Government by company ownership and direct participation in the struggle for foreign reserves has transformed oil into an international explosive, the Washington Government in challenging British supremacy may touch off that explosive. The most provocative activities of the State Department since the Great War have been in the service of oil.

With the Washington Government in the fight, how does it happen that American oil magnates, once world dictators of supply, have let Great Britain capture three-fourths of all reserves? The answer is a tale of melodrama such as even scenario writers have not conjured for the films. This "thriller" of course has a hero, and a villain. But which is hero, and which is villain, depends upon the nationality of the audience. One is Mr. John D. Rockefeller, called "the Oil King." The other is Sir Henri W.A. Deterding, who prefers the name "Napoleon."

The prologue of the international oil melodrama begins in that part of the world better known as the birthplace of Christianity. There in the Near East at the turn of the century appeared two gentlemen from afar. One was an American, Rear-Admiral Colby M. Chester. The other was a Briton of the more adventurous sort, an Australian, Mr. William K. D'Arcy. While on a diplomatic mission to Turkey in 1899 to obtain

redress for American losses in Armenian massacres, the Admiral scented oil. He hurried home, resigned his naval commission, and returned to the Sublime Porte. The American wanted railway, mining and petroleum concessions in Anatolia and Iraq, or Mesopotamia as it was then named. Meanwhile the mysterious Mr. D'Arcy was prospecting somewhere in the interior of Persia.

American Indians in western Pennsylvania almost three centuries earlier had led Father Joseph de la Roche D'Allion, a French Franciscan missionary, to a pool of black waters. Since then this miracle-working fluid had been used increasingly, first as a medicament and later as an illuminant. Out in Cleveland a Mr. Rockefeller had the happy idea of dominating the growing industry by pipe-line control, railroad rebates, legislative manipulation and unscrupulous competition.[15] Control of American production gave Mr. Rockefeller the premier position as world distributor. British and Dutch companies were springing up in the Far East, French and Russian capital was beginning to develop the Caucasus, but America was the largest producer and Standard the chief seller in foreign markets. Then in 1898 new gushers in the Caucasus sent Russian production upward till it surpassed American output for a time.[16] In other countries a few industrial dreamers were becoming oil conscious.

Hence the presence in the Near East of Admiral Chester and of Mr. D'Arcy. Unexpectedly, the latter's dream came true. He obtained in 1901 from the Shah a 60-year monopoly oil concession covering five-sixths of the Persian Empire, all except five northern Caspian provinces beyond the mountains. For these half-million square miles and their petroleum riches he paid $20,000 cash, pledged the same amount and 16 per cent royalty.

Sultan Abdul Hamid of Turkey was less obliging than the Persian Shah. Admiral Chester got only promises from the Turk. Mr. D'Arcy had gone to London, organized what was later the Anglo-Persian Company to exploit his new concession, and was soon back in the Near East with

his eyes on the Mesopotamian vilayets of Bagdad and Mosul. These were the areas sought by the Admiral. Then Germans appeared. Concession-hunters were crowding each other. At this point Abdul Hamid discerned that oil was a commodity not unworthy of the personal attention of Allah's anointed. He transferred the Bagdad-Mosul rights from his Government to his private account—and let it be known he was now ready to talk business with the foreign infidels.

The American Admiral lost. The Germans obtained the Anatolian Railway Company concession, with an option to drill the Bagdad-Mosul fields on shares with Abdul. Then for some unexplained reason the Sultan changed his mind, he was not sure about this German concession after all. Enter Mr. D'Arcy and Anglo-Persian. But before the British could close their deal, Abdul was swept out by revolution and the Young Turks were in power.

Again the American pushed forward. This time he got his concession promises in writing. But before his contract could be ratified the British and Germans had combined against him. They formed in 1912 the Turkish Petroleum Company, consisting of the British Dutch-Shell oil group, the Deutsche Bank of Berlin, and the Turkish National Bank in which there was much British capital.[17] The new organization revived the 1904 German claim. Within a year the Turkish Bank's 50 per cent stock interest in the joint company was transferred to Anglo-Persian. Then it was apparent that no less a power than the British Government had played and won—from the American holder of the concession.

The London Government now came into the open. With the aid of the Berlin Foreign Office it forced Turkey to confirm the old German claim in the form of a Turkish Petroleum Company concession to the Bagdad-Mosul fields. That was in 1914. It was the last bit of Anglo-German co-operation for some time. Indeed the Kaiser's Government had certain ambitious plans for more than a quarter share in the Turkish Petroleum Company—a "*Drang nach Osten*" for political power, the Berlin-Bagdad railway and all the oil.

Intervention by the British Government to form the new company was opposed by some British oil men. This opposition was explained at the time by Sir Robert Waley Cohen, Shell Oil Company director: "These arrangements [reconstitution of the Turkish Petroleum Company] were entered into at the instance of the British Government. We do not believe in mixing up politics with business: it leads sometimes to corruption, always to inefficiency, and tends to convert what should be mere commercial rivalries into national animosities—a very serious disadvantage."[18]

But the London Ministry apparently was less concerned with preventing national animosities than with preparedness to win any war provoked 6y such animosities. Consciously and deliberately London had made a momentous decision. The British Government was going into the oil business as a direct participant in the struggle for foreign concessions and markets. This decision, which appeared a sudden one, had been maturing since 1905. In that year Mr. D'Arcy, after unsuccessful efforts to interest British capital in his Persian concession, was on the point of selling to foreigners. To prevent this Mr. E.G. Pretyman, Civil Lord of the Admiralty, and other officials secretly arranged for British private capital to operate the Anglo-Persian Company until it could be taken over openly by the British Government.

Why? Where had the British Government picked up so early the lesson of international oil power, which the rest of the world did not learn until the Great War? The London Government learned from that rare type of genius, a professional military man with imagination and without fear of bureaucratic superiors.

"The use of fuel oil adds 50 per cent to the value of any fleet that uses it." That is orthodox doctrine now. It was revolutionary heresy when Admiral Lord Fisher began to preach it to the British Government in 1882. Nevertheless it alarmed the London politicians to be told that Standard then controlled 30,000,000 of the world's 35,000,000 barrels of

production of this stuff over which some "fool" naval officer was getting so excited.

"The use of oil fuel [would] increase the strength of the British navy 33 per cent because it can re-fuel at sea off the enemy's harbours," the Admiral reported later. "Coal necessitates about one-third of the fleet being absent refueling at a base. ... With two similar dreadnoughts oil gives three knots more speed—and speed is everything. Oil for steam-raising reduces the [coal] engine and boiler-room personnel over 60 per cent. [Engineers now say an equal amount of oil will produce twice as much steam-power as coal]. ... At any moment during refueling the oil-engine ship can fight—the coal-burning ship cannot. ... Oil does not deteriorate by keeping. Coal does. ... It is a criminal folly to allow another pound of coal on board a fighting ship."[19]

Lord Fisher not only discovered the method. He found the man. The man was a Holland clerk. He was rising as an official in the Royal Dutch Petroleum Company. The Admiral described this gentleman to the British Government as "Napoleonic in his audacity and Cromwellian in his thoroughness."

Henri W.A. Deterding was the name of this new Napoleon. He lived up to Lord Fisher's description. He extended the oil holdings of Royal Dutch into a dozen countries. He arranged for increased British capital control of this international trust. He merged the British Shell oil group with it, making of the two largest European organizations a united Dutch-Shell combine, the strongest in the world. He became a British citizen.[20] The British Government made him Sir Henri. And then he began to make British foreign policy.

By 1913, according to Lord Fisher's Memorandum at the time, Sir Henri was "confessing" to the British Royal Commission on oil that: "He possesses in Roumania, in Russia, in California, in Trinidad, in the Dutch Indies, and shortly in Mexico, the controlling interest in oil. The Anglo-Persian Company also says he is getting Mesopotamia and squeezing Persia, which are practically untouched areas of immense size

reeking with oil. ... Sir Thomas Browning says in his evidence that the Royal Dutch-Shell combination is more powerful and aggressive than ever was the great Standard Oil Trust of America. Let us therefore listen with deep attention to the words of a man [Deterding] who has the sole executive control of the most powerful organization on earth for the production of a source of power which almost doubles the power of our navy whilst our potential enemies remain normal in the strength of their fleets."[21] This British Commission, "listening with deep attention" to the Oil Napoleon, was getting ready for the war which Lord Fisher a decade before had predicted to the very year.

To the Fisher-Deterding team was added the political power of Mr. Winston Churchill, then First Lord of the Admiralty. Just a year before the outbreak of the Great War, the First Lord revealed to the House of Commons the policy which has since made history.

"Our ultimate policy is that the Admiralty should become the independent owner and producer of its own supplies of liquid fuel," he explained. "First, by building up an oil reserve in this country sufficient to make us safe in war and able to over-ride price fluctuations in peace; secondly, by acquiring the power to deal in crude oils as they come cheaply into the market. ... The third aspect of the ultimate policy is that we must become the owners, or, at any rate, the controllers at the source, of at least a proportion of the supply of natural oil which we require."[22]

To carry out this policy the London Government moved rapidly. It reached for Mosul. The British had one-quarter interest with Germans and Turks in the Turkish Petroleum Company's unrecognized German claim. Within a few months the London Cabinet had increased British ownership in that company to three-quarters, left the Germans with only one-quarter interest in their own claim, shut out completely the Turks who controlled the territory and the Kurds who owned the oil land, and taken the concession from the American who held it.

That was only a beginning. The British Government bought for $11,000,000 controlling interest in the Anglo-Persian Company. With

this contract went 48 years of monopoly over most of the Persian Empire, with the then richest oil fields of the Eastern Hemisphere.

Then August 1914. Mr. Churchill's preparedness was "vindicated"—at least there was war. Lord Fisher was Vindicated—oil was the decisive weapon on sea, land, air. But out of the war strode a larger figure. It was he who had quietly guided them both in driving forward this British policy, Sir Henri.

The war, however, made demands which even this great Napoleon could not meet. "With the commencement of the war, oil and its products began to rank as among the principal agents by which they [the Allies] would conduct it and by which they could win it," Foreign Minister Curzon said.[23] "Without oil how could they have procured the mobility of the fleet, the transport of their troops, or the manufacture of several explosives?" Governments appointed Oil Ministers with Cabinet rank, and finally the Inter-Allied Petroleum Council was organized to ration the precious fluid. A famine was soon in sight. The Fisher British navy had 45 per cent of its ships burning oil. On the land fronts motor trucks and the new tanks and planes were consuming gasoline at an accelerating rate.

Germany, cut off from adequate oil supplies and forced to seek substitutes, was trying to reduce her enemies to the same crippled condition. She directed her submarine campaign especially against the Allies's sea train of tankers. As a result Great Britain was close to a naval oil shortage and capitulation by the end of 1917. At the same time Premier Clemenceau sent his famous appeal to President Wilson.

"A failure in the supply of petrol would cause the immediate paralysis of our armies, and might compel us to a peace unfavourable to the Allies," the old Tiger wrote.[24] "Now the minimum stock of petrol computed for the French armies by their Commander-in-Chief must be 44,000 tons, and the monthly consumption is 35,000 tons. This indispensable stock has fallen today to 28,000 tons, and threatens to fall almost to nothing if immediate and exceptional measures are not undertaken and carried out

by the United States. These measures must be taken without a day's delay for the common safety of the Allies, the essential condition being that President Wilson shall obtain permanently from American oil companies tank steamers with a supplementary tonnage of 100,000 tons. ... The safety of the Allied nations is in the balance. If the Allies do not wish to lose the war, then, at the moment of the great German offensive, they must not let France lack the petrol which is as necessary as blood in the battles of tomorrow."

This testimony of the British Admiralty and the French Premier on petroleum shortage in the last war, when oil-burning navies, motor artillery, trucks, tanks and planes were not fully developed, demonstrates the even greater importance of control of oil reserves and sea transport in the next war. The British navy with half of its fleet using oil consumed 9,100,000 tons, the American Petroleum Institute estimated.[25] The British army used an additional 1,219,000 tons, and the French army 1,855,000 tons more.

America answered the Allies's call for help. Standard and other companies, with tanker convoys of the United States navy, succeeded where Napoleon Deterding had failed. When the war was over, Foreign Minister Curzon said the United States had furnished "over 80 per cent of the Allied requirements of petroleum products."[26]

Oil was more than a major weapon of the military and naval campaigns. Often it was the objective of those campaigns. This is apparent in most of the war memoirs, especially those of Admirals Fisher and Jellicoe, Mr. Churchill, and General Ludendorff. Effort to obtain oil reserves for the successful prosecution of hostilities and for commercial strength after the war explained to a large extent British military operations in Iraq, the Turkish drive toward Baku, and the German campaigns in Galicia, Roumania and the Caucasus.

7. Note of Dec. 15, 1917.

8. Address to Inter-Allied Petroleum Council, London, Nov. 21, 1928.

9. Quoted from Pierre l'Espagnol de la Tramerye, *The World Struggle for Oil*. 1923.

10. London *Sperling's Journal*, September 1919.

11. Federal Trade Commission, *Report on Foreign Ownership in the Petroleum Industry, 1923*, p. x.

12. Ibid., p. 39.

13. 66th Congress, 2nd Session, Senate Document No. 272, p. 17.

14. Federal Oil Conservation Board, *Public Hearing, May, 27, 1926*, p. 7.

15. For a briefer account of Standard than Ida Tarbell, *History of the Standard Oil Company*, and the Government Printing Office index on anti-trust hearings and reports, cf., John Ise, *The United States Oil Policy*, pp. 46-51, 225-273. 1926.

16. Cf., Appendix B.

17. Cf., *Political Science Quarterly*, Vol. xxxix, No. 2, Edward Mead Earle, "The Turkish Petroleum Company—A Study in Oleaginous Diplomacy." Earle, *Turkey, the Great Powers and the Bagdad Railway*. 1923.

18. Quoted from E.H. Davenport and S.R. Cooke, *The Oil Trusts and Anglo-American Relations*, p. 27. 1923.

19. Ibid., p. 5.

20. The New York *Wall Street Journal*, March 27, 1928, published the following: "Because of statements recently in various publications that Sir Henri Deterding, managing director of Royal Dutch-Shell Group, had changed from Dutch to British citizenship, Richard Airey, president of Asiatic Petroleum Co., a Royal Dutch subsidiary, states that Sir Henri has never changed his nationality. 'He was born a native Dutch subject, is, and in my opinion, will remain so until his death,' Mr. Airey states. He further points out Royal Dutch Co. charter requires all officers and directors be Dutch subjects. ... He further points out 60 per cent of the operating subsidiaries are owned by Royal Dutch Co. and 40 per cent by Shell Transport. Also that the British Government has repeatedly denied it owns any Royal Dutch stock." Although not directly stated, this apparently is intended to convey the impression that Dutch capital, rather than British capital, has majority control of Dutch-Shell.

The British Embassy, when questioned March 27, 1925, by the author, said to the best of its knowledge it believed Sir Henri was a naturalized British citizen, and added that the British title borne by him was not usually bestowed on an alien. The British *Who's Who* states he was

knighted in 1920.

The British authors Davenport and Cooke, *supra*, p. 41, say: "The personality which engaged the attention of the P.I.P. Committee [British Petroleum Imperial Policy Committee of 1915] was Sir Henri Deterding, the Napoleon of the Royal Dutch-Shell combine. Even before the war his Napoleonism had given way to love of England in the affair of the Turkish Petroleum Company, and in December 1915 he had been naturalized. He now lent a willing ear to the Committee. What could be arranged? The objective would be most simply attained if the British interests in the Royal Dutch Company could increase their share holdings and obtain a majority stock control. How could this be effected? Obviously there might be a transfer of a block of shares to Sir Henri Deterding, and from him thence to British nominees. Sir Harry McGowan, as the civilian member of the Committee, was instructed to make the financial arrangements with Sir Henri Deterding. That something like the desired control was obtained is obvious from unguarded references in a speech made by Mr. Pretyman on a great oil occasion, the laying of the foundation-stone of the Anglo-Persian Oil Company's refinery on May 7, 1919. ... It was, however, quite wrongly taken for granted that the British Government, directly or indirectly, was interested in the Royal Dutch-Shell combination. The Foreign Office has more than once given an unqualified denial to this report. The British State was not *officially* interested at all. But British citizens had quietly carried out a *coup d'état*. Without a British share control of the Royal Dutch Petroleum Company, which then held the majority control in the Royal Dutch-Shell group of companies, how else could the British Empire have been said [by Mr. Pretyman—L.D.] to be near controlling one half of the available supplies of petroleum in the world? Yet it was not the British Government, but British nationals, who effected the desired result. ... It will be remembered that the British Government had already, during the course of the war, taken over its nationals' holdings in the Royal Dutch in order to stabilize the exchange. In the next war it might do likewise. And in that event it would take over shares amounting to majority control, thanks to the P.I.P. Committee. That, as Sir Henri Deterding must have argued, was the most effective and least objectionable way of making Royal Dutch-Shell another Anglo-Persian."

For official discussions of British capital in Dutch-Shell, see 68th Congress, 1st Session, Senate Document No. 97, *Oil Concessions in Foreign Countries*, especially the British note of April 10, 1921, and United States reply of June 10, 1921. The latter quotes from a Memorandum of the Secretary of the Interior, the following (p. 17): "It will readily be seen that intentionally, or otherwise, the controlling interest in the 'Royal Dutch-Shell' combine, and its constituent or subsidiary corporations, is so inextricably confused that it would require weeks or more, and access to the minute books, as well as the Articles of Incorporation of the original, constituent, and subsidiary companies to ascertain exactly the controlling financial interest and the controlling direction in any given instance."

21. Davenport and Cooke, *supra*, p. 15.

22. Statement to House of Commons, July 17, 1923.

23. Address to Inter-Allied Petroleum Council, Nov. 21, 1918.

24. Note of Dec. 15, 1917.

25. Cf., L.M. Fanning, *Oil in the World War*. 1922.

26. Address to Inter-Allied Petroleum Council, Nov. 21, 1918.

CHAPTER THREE
Napoleon Deterding Defeats King John D.

THE London Government after the Armistice set out to get British control of the world's oil resources. A Cabinet Petroleum Imperial Policy Commission was organized. During the war the Government temporarily had taken over Dutch-Shell stock of British citizens. The new Petroleum Commission and Sir Henri now arranged for British private control of Dutch-Shell in peace-time and for quick transfer to direct governmental control on threat of war. Lord Long, war-time Petroleum Minister, was named First Lord of the Admiralty. Completion of the process of converting the coal-burning remnant of the navy into oil-burning ships was ordered. Similar conversion of the merchant marine was encouraged. By 1921 the Government was able to announce that "over 90 per cent of the British navy is oil-fired [compared with 45 per cent prewar], as is a rapidly increasing proportion of her merchant marine." A permanent oil reserve, sufficient for one year of war operations, was stored in England.

The Foreign Office strengthened its diplomatic lines to defend and extend claims to concessions in the Near East and elsewhere. British companies were encouraged to become more aggressive in seeking and obtaining lands and rights in foreign countries.

In addition to Dutch-Shell activities in this direction, two organizations were chosen to furnish scouts and shock troops for the new foreign concession drive. These were the D'Arcy Exploration Company, an Anglo-Persian subsidiary which the London Government owned directly, and British Controlled Oilfields, Ltd., having a specially organized board of trustees with two Government representatives.[27] One of the latter was Mr. Pretyman, former Civil Lord of the Admiralty and author of the earlier secret arrangement whereby Anglo-Persian had been kept from foreign hands and saved for the British Government.

As a final touch to the campaign plan, Great Britain tightened her Empire exclusion policy preventing Americans from acquiring petroleum lands or stock in British companies.

The plan worked well. There was much exulting in informed quarters in London. By May 1919, the London *Times* was quoting Mr. Pretyman, M.P., in this vein:

"When the war came, the position was that the British Government, with its vast interests in the whole world, controlled about two per cent of the world's petroleum supplies ... [Now] he thought that when adjustments were completed the British Empire would not be very far from controlling one-half of the available supplies of petroleum in the world."

These "adjustments," to which Mr. Pretyman referred, brought Great Britain increasingly into conflict with the State Department and American companies, and resulted in an American awakening.

Americans had been thinking about the oil lessons of the Great War. News of the British drive for world oil hegemony began to come across the Atlantic. Then there was that 1919 article by Sir Edward Mackay Edgar. It was widely reprinted in the United States. These repeated British jibes that America was rapidly exhausting her supply and would soon 6e dependent upon Great Britain, who dominated the world's oil future, produced an American reaction which was a mixture of oil consciousness and of anti-British nationalism.

British writers are inclined to shrug their shoulders over this American awakening. They attribute it chiefly to Standard Oil Company propaganda and influence in Washington. Perhaps. If so, the British themselves had painted the picture which lurid touches of Rockefeller artists could not make more alarming.

That Standard was hard hit in the world market by its growing British competitors was clear. The American oil king was in danger of being overthrown by the British Napoleon. The king 25 years earlier had a

near-monopoly hold on European and Far East markets. After 1900 heavy Russian production of the Nobel-Rothschild interests, and rise of Royal Dutch and the Shell group had challenged Standard's sway. King John D. tried to dispose of his most dangerous European rival, Royal Dutch, by the same tactics which had defeated his many American competitors. He planned to buy out Royal Dutch or, failing in this, start a price-war to force Royal Dutch into his hands by the bankruptcy route. When Standard in 1898 had forced Royal Dutch close to surrender, it was the then obscure Mr. Deterding who saved the day. He got a loan from the Paris Rothschilds. Since then the French have held a minority non-controlling interest in Royal Dutch.[28] Having obtained financial reinforcements for continuing the price-war with Standard, Mr. Deterding in 1902 made a working agreement with Shell for joint action against the American trust. This led in 1907 to the Dutch-Shell merger.[29] The former Dutch clerk began to earn the title of oil emperor. He took some of the European territory from Standard. After another long and costly battle, the two agreed in 1911 to divide equally the Chinese and Japanese markets.

Soon Dutch-Shell renewed the attack, this time invading the United States. Beginning in 1912, Mr. Deterding's agents started to organize or purchase in this country producing companies such as California Oilfields Ltd., and Roxana Petroleum Company. He also was reaching southward into Mexico and the Caribbean area through such companies as La Corona, Mexican Eagle.[30]

Standard met Dutch-Shell expansion into the United States by stirring up the Washington Government and by loosing "British peril" propaganda. Mr. Deterding countered the Rockefeller propaganda by permitting American investors to buy minority shares in the Dutch-Shell American companies. He thereby incidentally let Americans furnish most of the actual capital for the British penetration of this country. So rapid was British development of wells that over half of Dutch-Shell's world production was soon coming from American fields. Standard charged

the alien trust with pushing production here and holding back its non-American fields, deliberately to exhaust United States reserves.

This situation was reaching a critical point in 1917. But then the United States entered the Great War. On Washington's orders anti-British propaganda was suddenly turned into pro-British propaganda. The Kaiser was elevated into Mr. Deterding's place as arch-fiend. There followed an Anglo-American oil truce, with Yankee wells and tankers furnishing 80 per cent of the "blood of battles which won the war."

After the signing of the Armistice, however, the new British oil drive was centred especially in the United States. After acquiring in 1919-20 the Union Oil Company of Delaware, Dutch-Shell grabbed for the Union Oil Company of California.[31] With the avowed purpose of checking British penetration, an American syndicate rescued the latter organization by restricting Dutch-Shell to 26 per cent of the capital stock.

In the midst of these manoeuvres and counter-manoeuvres, the London *Financial News* on February 24, 1920, announced as "a modest estimate" that Great Britain's "present command of the world's oil resources runs to no less than 75 per cent of their entirety, compared with two per cent when that country entered the war." But a greater one was to describe the situation in which the British had obtained world oil power and the Americans had awakened "too late."

"As regards competition, the fight for new production deserves our special attention," Sir Henri said in his 1920 annual report.[32] "This struggle became especially keen when the significance of fuel oil became generally manifest. ... The advantage of having production not concentrated in only one country, but scattered all over the whole world, so that it may be distributed under favourable geographical conditions, has been clearly proven. It needs hardly be mentioned that the American petroleum companies also realized, although too late, that it was not sufficient to have a large production in their own country. As regards our own group in this respect, its business has been built up primarily on

the principle that each market must be supplied with products emanating from the fields which are most favourably situated geographically. It goes without saying that we are now reaping the benefits resulting from this advantageous position. In order, however, to maintain our position in the world market it is not sufficient to be satisfied with the advantages already obtained. We must not be outstripped in this struggle to obtain new territory. Our interests are therefore being considerably extended; our geologists are everywhere where any chance of success exists."

The Americans might be "too late," as Sir Henri and others claimed, but they were prepared at least to make a lot of noise about it.

The Senate in March 1920 asked the State Department what were the foreign government restrictions against American acquisition of oil fields abroad. Also the Senate wanted to know what the United States Government was doing to defend the sacred American foreign policy of the Open Door. The State Department's answer damned its late ally in the crusade for liberty, the British Government. In the preceding year the Department had sent out its renewed instructions to diplomats and consuls to help the American companies and report on activities of foreign companies and governments. So it was ready when the Senate called.

"The policy of the British Empire is reported to be to bring about the exclusion of aliens from the control of the petroleum supplies of the Empire and to endeavour to secure some measure of control over oil properties in foreign countries," the Department charged.[33] "This policy appears to be developing along the following lines, which are directly or indirectly restrictive on citizens of the United States:

"1. By debarring foreigners and foreign nationals from owning or operating oil-producing properties in the British Isles, colonies, and protectorates.

"2. By direct participation in ownership and control of petroleum companies.

"3. By arrangements to prevent British oil companies from selling their properties to foreign-owned or controlled companies.

"4. By Orders In Council that prohibit the transfer of shares in British oil companies to other than British subjects or nationals.

"It is understood that the British Government has a controlling interest in the Anglo-Persian Oil Company and that it has also assisted in the development of the Papuan oil fields by bearing one-half of the expense and contributing experts."

Congress promptly passed a mineral leasing law prohibiting acquisition of public lands by nationals of countries denying such rights to Americans.[34] The law, however, did not apply to private lands and therefore could not stop Dutch-Shell penetration here as British regulations excluded American producers from most of the Empire. A bill for that purpose failed.

While the State Department and Congress were indicting British policy, the London Government was negotiating secretly with France to get virtual British control in most of the major fields of the Eastern Hemisphere. The natural riches disposed of by the two Powers in that agreement belonged neither to Great Britain nor to France, but to Russia and the peoples of the Near East who had been "freed from the menace of German enslavement" by "the war to make the world safe for democracy."

The San Remo Agreement of April 24, 1920, in addition to pledging mutual support in Roumanian and minor fields, provided in written or unwritten form for the following: A British-controlled company to take over the Mosul and Iraq fields, France receiving the 25 per cent share of the Turkish Petroleum Company sequestrated from Germany and agreeing to construct outlet pipe-lines across Syria; France to support the British drive for monopoly concessions in Russia; Great Britain to get distribution and sales contracts with the French Government and

French private consumers, and, in payment, to hand over Syria to France as a League of Nations mandate.

Articles of the written part of the pact relating to Russian and Iraq-Turkish fields state:

"In the territories belonging to the former Russian Empire the two Governments will give their joint support to their respective dependents in their common efforts with the view to obtain petroleum concessions and facilities for export, and to assure the delivery of petroleum supplies.

"The British Government binds itself to concede to the French Government, or the representative appointed by same, 25 per cent of the net production of crude oil at the current market price which His British Majesty's Government may draw from the Mesopotamian petroleum regions in the event of these regions being made productive 6y virtue of Government exploitation; or in the event the Government has recourse to a private company to exploit the Mesopotamian petroleum regions, the British Government will place at the disposal of the French Government a participation of 25 per cent in the said company. The amount to be paid for a participation of this kind should not exceed the amount paid by any other participant in the said petroleum company. It is also agreed that the said petroleum company is to be under the permanent control of Great Britain.

"It is mutually agreed in the event of the private petroleum company being constituted as aforesaid the Government of the country or other local interests are authorized, if they so desire, to participate up to 20 per cent in the shares capital of said company. The French are to contribute one-half of the first 10 per cent of such a local participation and the balance will he furnished by each participant in proportion to his holdings."[35]

As it worked out France got Syria but Great Britain did not get all the oil—or, at least, has not yet. Great Britain was blocked partly by the

Bolshevist regime in Moscow and from another angle by the Washington Government.

American public opinion was aroused by statements of Secretary of the Interior Lane and other officials.[36] Politicians on the Senate floor competed with each other in denouncing Great Britain. A movement was started to beat London at its own game by putting the United States Government directly into the business of obtaining foreign concessions in competition with the British Government companies. Senator Phelan of California introduced an unsuccessful resolution in May 1920 proposing organization of a Federal company—"The United States Oil Corporation"—to direct a general American oil drive overseas and itself acquire foreign concessions.[37]

The State Department, under pressure of the public, Congress, and Standard, struck hard and fast. Diplomatic notes shot back and forth between Washington and London filled with charges and counter-charges.

Washington's notes emphasized the American "impression" that Great Britain as a general policy was "preparing quietly" to monopolize the Mosul and Iraq fields.[38] London replied with denials. The State Department answered with a quotation from the San Remo agreement that the company (Turkish Petroleum Company) exploiting the Mosul-Iraq fields "shall be under permanent British control.[39] Downing Street countered with the charge that the United States Government had used its power in Costa Rica and Haiti "to secure the cancellation of oil concessions previously and legitimately obtained by British persons or companies."[40] In contrast to this, Great Britain had not driven Standard out of Canada.

The State Department finally challenged the British-French division of Near East spoils on the ground that the United States as one of the Allied victors should not "be disassociated in the rights of peace from the usual consequences of association in war." The British press screamed: "Hypocrites."

“One observes that the [American] high-sounding note of the principle of economic equality [Open Door] has now sunk into the lower note of the principle of `sharing the swag,'” was the way Davenport and Cooke put it[41] “How had the mighty fallen! The United States had originally set a fine example of charity by virtuously declining to take a mark of German reparations or a square mile of the German colonies, but after four years was found making an exception to its self-denying ordinance in the case of the oil fields in Mesopotamia.”

Only an occasional Briton questioned the wisdom of the British policy. Beeby Thompson, the geologist, wrote: “In the development of her [America’s] oil fields, foreigners have equally participated with American citizens, and it is therefore the more remarkable that our [British] Government should adopt an attitude of antagonism to the legitimate and national aspirations of our American friends.”[42] But this was not popular doctrine in London.

American protests served to delay League of Nations ratification of the mandate. Standard continued to stir up the American public. Senator Frank B. Kellogg, before his defeat by the voters of Minnesota and subsequent party promotion as Ambassador to London and Secretary of State, kept up the agitation in Congress. The State Department went on writing provocative notes.[43]

While the Americans talked and wrote, the British acted. Sir Henri pushed on into new foreign fields. He arranged with the Netherlands Government for Dutch-Shell to receive a monopoly concession in the new oil fields of Djambi, then believed to be the only resources in that area not already controlled by the British company. Standard and Sinclair interests, both angling for the concession, learned of the Deterding deal. The State Department wrote another note on the sanctity of the Open Door, this time to The Hague.

William Phillips, American Minister, after verbal protests to the Foreign Minister wrote to him April 19, 1921: “My Government is very greatly concerned when it becomes apparent that a monopoly of such far-

reaching importance in the development of oil is about to be bestowed upon a company in which foreign capital other than American is so largely interested."[43] Mr. Phillips threatened retaliation by excluding Dutch companies from American private, as well as public lands, if the Government of The Hague persisted in its discriminatory policy:

"I have pointed out that the United States has for years carried the burden of supplying a large part of the petroleum consumed by other countries, that Dutch capital has had free access to American oil deposits and that the petroleum resources of no other country have been so heavily drawn upon to meet foreign needs as the petroleum resources of the United States. I have pointed out that in the future ample supplies of petroleum have become indispensable to the life and prosperity of my country as a whole, because of the fact that the United States is an industrial nation in which distance renders transportation difficult and agriculture depends largely on labour-saving devices using petroleum products. In these circumstances, my Government finds no alternative than the adoption of the principle of equal opportunity, with the proviso that no foreign capital may operate in American public lands unless its Government accords similar or like privileges to American citizens; and furthermore I have submitted that in the light of the future needs of the United States such very limited and purely defensive provisions as the above might become inadequate should the principle of equality of opportunity not be recognized in foreign countries."

An unsatisfactory reply from the Dutch Government brought from Washington the intimation of a possible boycott of Dutch industries by American capital generally. "I have just received," the Minister wrote, "a further telegraphic instruction from the Secretary of State advising me that in view of the wide publicity which the matter of the Djambi concession is receiving in the United States, the practically complete exclusion of American interests from the Dutch oil industry did create an unfavourable impression and a situation of general discouragement to prospective American participants in other branches of Dutch industry."[45]

But these protests to The Hague were as ineffective as the Washington notes to London had been. Dutch-Shell got the Djambi concession. Nor did Washington carry out its threatened retaliation of excluding Dutch-Shell from the United States or of a general capital boycott of Dutch industry. Loss of the Djambi field was serious defeat of the Rockefeller firm. When that concession went to Mr. Deterding, there disappeared one of the few remaining opportunities for Standard to get what it had sought so long, a major producing field in the Far East.

Despite Standard's propaganda, the State Department's report to the Senate in 1920, the diplomatic controversies over Mosul and Djambi, and sporadic gusts of anti-British sentiment, apparently the American public did not realize the full significance of the oil war until publication of the long-awaited Report of the Federal Trade Commission, on Lincoln's Birthday 1923. The commission's summary, which was a sensation at the time, said:

"The more important facts developed in this report may be concisely stated as follows:

"1. The Royal Dutch-Shell group, a combination of the Royal Dutch Company and the Shell Transport and Trading Company of London, has world-wide oil investments, including numerous refineries, an immense fleet of tank ships, and petroleum production in many lands, which, in 1921, was no less than 11 per cent of the world output.

"2. The Royal Dutch-Shell group in February 1922 consummated a merger of the principal properties and investments of the Union Oil Company [Delaware] with its chief American subsidiaries in a new company, the Shell Union Oil Corporation.

"3. The Shell Union Oil Corporation now controls over 240,000 acres of oil lands in the United States; has about 3.5 per cent of the total output of crude petroleum; owns extensive properties in refineries, pipelines, tank-cars, and marketing equipment; and is one of the larger companies in the domestic petroleum industry.

"4. The Union Oil Company [Delaware] owned about 26 per cent of the stock of the Union Oil Company of California, but, to prevent the Royal Dutch-Shell group from gaining control, certain stockholders of the Union of California organized an American-controlled holding company, which now owns more than half of its issued stock.

"5. The most important instances of discrimination by foreign governments against citizens of this country are the exclusive policies of the Governments of Great Britain and the Netherlands in respect to the oil fields of India and the Dutch East Indies, and the 1920 San Remo Agreement of Great Britain and France covering the undeveloped oil fields of Mesopotamia and of the British and French colonies.

"6. Denial of reciprocity of treatment to citizens of this country appears to exist with respect to the petroleum industry of Australia, British Borneo, certain African colonies, British Honduras, British Guiana and Trinidad; France and French possessions; Italy, and the Netherlands and its dependencies.

"7. Thus forced to modify its historic policy, Congress in 1920 enacted a mineral leasing law for public lands which forbids the acquisition of properties by the nationals of any foreign country that denies reciprocity to Americans, in consequence of which certain applications for petroleum leaseholds have been denied to the Royal Dutch-Shell group.

"What further efforts may be made by this combination to acquire privately-owned petroleum lands or competing oil companies, it is, of course, impossible to predict, or how far anti-trust laws may be effective to prevent them.

"The supply of crude petroleum in this country is being rapidly depleted to meet the requirements of a growing domestic consumption and foreign trade. The sources of supply of the domestic industry are concentrated within its own borders and in Mexico, while those of its principal competitor are widely distributed throughout the whole world. It appears obvious that a nation having widely distributed supply and

storage facilities and owning the means of distribution will have certain advantages in world trade against one having concentrated supply."[46]

The British, not content with excluding Standard and other American companies from the Near East and Far East and with penetrating the United States, had begun another successful flank attack on American entrenchments in Mexico and the Caribbean countries. This was a tactical error. The Washington Government had special interests in that area.

An oil Administration was in power in Washington. President Harding was an avowed friend of the Big Business interests which contributed so liberally to his campaign fund. Mr. Harding knew oil. Immediately after election he had gone out to the centre of the domestic oil fields in Oklahoma, and made a speech to the effect that: "Next to agriculture and transportation the petroleum industry has become, perhaps, the most important adjunct to our civilization and well-being." In Mr. Harding's Cabinet were several men with close oil connexions.

The most notorious was Albert B. Fall, Secretary of the Interior. Mr. Fall was an associate of Mr. Harry F. Sinclair and Mr. Edward L. Doheny, next to the Rockefellers the then largest American oil magnates. He accompanied the Sinclair party to Moscow seeking oil concessions. He had Mexican oil holdings in the Doheny companies. This was the patriot who sold out the United States naval oil reserves to Mr. Doheny and Mr. Sinclair. As the United States Supreme Court later found in the Teapot Dome case: "He was a faithless public officer. There is nothing in the record that tends to mitigate the sinister significance attaching to that enrichment. ... Fall had been willing to conspire [with Sinclair] to defraud the United States." Of the Fall-Doheny deal in the Elk Hills reserve lease, that high court said: "The whole transaction was tainted with corruption."[47]

But before these things were known, he had become a power in the international oil war. In Mexico City, in Moscow, in many capitals,

policies were being shifted, concessions lost and won, because Mr. Fall was the Washington Government—or was supposed to be.

Open Door—Monroe Doctrine—Standard Oil—Doheny and Sinclair—Fall in the Harding Cabinet. Here were ingredients of an international explosion. An American payment of $25,000,000 had been arranged to settle Colombia's Panama Canal claims, partly to stop the British oil drive in Colombia. Now an American naval vessel was sent to the Tampico oil fields of Mexico. An American note was sent to London. The note was so strong, the diplomats decided it was "not fit to print." It shook even the British officials. Members of the London Government, who considered its function of maintaining friendly relations with the United States more important than its functions as an oil company, insisted on a general oil compromise.

"For the betterment of Anglo-American relations the British Government fell to bribing Standard Oil; the bribes were to be paid in the oil of Persia and Mesopotamia," say the Britons, Davenport and Cooke. But, they lament: "Did anyone suppose that Standard Oil could be silenced by sops from two of the world's oil fields as long as it did not control the rest?"[48]

The British Government chose Sir John Cadman to make the deal with New York and Washington. Sir John had been the British negotiator and signer of the San Remo Agreement. He was now an official of Anglo-Persian. He came to the United States with the British compromise offer. Standard was promised permission to continue its Palestine exploration, which had been blocked by the British. There was bigger bait. Standard also was to get an equal share with Anglo-Persian in the north Persian concession[49] (not to be confused with the Anglo-Persian monopoly concession over the remaining central and southern Persia), and a minor share in the Turkish Petroleum Company which was to have control in the Mosul field. These terms were acceptable to Standard and Washington, at least as a basis for later negotiations. The

threatening State Department notes ceased. The much-stressed issues of Non-discrimination and the Open Door disappeared for a moment.

In the end this plan for an Anglo-American petroleum entente failed. Secretary Fall's ally, Mr. Sinclair, had been neglected. While the British and Standard were agreeing to share the north Persia fields, Sinclair representatives were negotiating with the Shah for the same concession. Franco-British conflict in the Near East and Turkey's claim to Mosul sovereignty caused some doubt as to whether Britain in any case would have this field to divide with Standard as promised. Sir Henri tried to exclude Standard and Sinclair from Russia. Emergence of Venezuela and Colombia as major fields of the future, and revival of the long Mexican dispute, set the British and Americans to fighting again in the dangerous Monroe Doctrine region.

27. Cf., Chap. V.

28. De la Tramerye, *supra*, p. 45.

29. Federal Trade Commission, *supra*, pp. 3, 8, 11.

30. Ibid., p. 14.

31. Ibid., pp. 21-32, 70-88.

32. Ibid., p. 13.

33. 66th Congress, 2nd Session, Senate Document No. 272.

34. 66th Congress, 1st Session, Senate Document No. 3334.

35. Federal Trade Commission, *supra*, pp, 103-105.

36. Interior Department, *Report of the Secretary, Year ending June 30, 1919*.

37. 66th Congress, 2nd Session, Senate Document No. 4396.

38. Note of May 12, 1920.

39. Note of Nov. 20, 1920.

40. Notes of Aug. 9, 1920, Feb. 28, 1921.

41. Davenport and Cooke, *supra*, p. 120.

42. Tulsa *Oil and Gas Journal*, Nov. 11, 1921.

43. 68th Congress, 1st Session, Senate Document No. 97, pp. 47-57.

44. Ibid., p. 70.

45. Ibid., p. 72.

46. Federal Trade Commission, *supra*, pp. ix-x.

47. New York *Times*, March 1, 1927.

48. Davenport and Cooke, *supra*, p. 112.

49. Federal Trade Commission, *supra*, p. 127.

CHAPTER FOUR
Mr. Doheny and Others Clean Out Mexico

SECRETARY FALL'S friend, Mr. Edward L. Doheny, was the original oil tsar of Mexico. He had gone to the southern Republic with small capital and in 1900 acquired the Hacienda del Tulillo of 280,000 acres for $325,000. Soon he was buying cheaply or seizing other lands, after providing financially for friendship of the dictator, President Diaz. By 1904, when Mexican production was 220,000 barrels, Mr. Doheny owned most of the important wells. Production rose to 14,000,000 barrels in 1910. The Potrero del Llano well began running 150,000 barrels a day. The Cerro Azul gusher broke the world's record with 200,000 barrels. Doheny production at times was worth more than $1,000,000 a week.

President Diaz, watching the American "wild-catter" grow rich, decided he must check Mr. Doheny's increasing domination of Mexico. The dictator decided this could be accomplished with most gain to himself and with most harm to the Americans by bringing in the British. So he granted favoured concessions to Lord Cowdray. Mexican Eagle, the Cowdray company, had 58 per cent of the total Mexican production in 1910.

There followed a period in which Mr. Doheny and Standard fought the Cowdray interests with every conceivable weapon. "It was Mr. Pearson [Lord Cowdray] who, in spite of all difficulties and all Standard Oil's intrigues—the Americans even hired bands of Mexican brigands, who destroyed Pearson's oil-pipes and set his wells on fire—held on in Mexico, and thus prevented that country from altogether turning into an economic province of the United States," Dr. Anton Mohr, the Norwegian geographer, wrote in his book *The Oil War*.[50]

The Americans had reason to believe that the overthrow of Diaz after 35 years' reign was necessary to prevent British ascendancy in Mexican oil. According to the British, Doheny and Standard agents directly

caused the 1911 Madero Revolution which unseated Diaz. Testimony of several witnesses at the U.S. Senate Foreign Relations Committee hearings in 1913 tended to show that American oil interests subsidized that revolution. Lawrence F. Converse, an American officer in the Madero army, testified: "Mr. Madero himself told me that as soon as the rebels made a good showing of strength several leading bankers in El Paso [U.S.A.] stood ready to advance him—I believe the sum of $100,000; and these same men [Governor Gonzales of Chihuahua and Secretary of State Hernandez] told me also that the Standard Oil interests had bought bonds of the provisional government of Mexico. ... They said that the Standard Oil interests were backing them in their revolution. ... [Standard Oil] was to have a high rate of interest and there was a tentative agreement as to an oil concession in the southern states of Mexico."[51]

The Washington Government, by speedy diplomatic recognition and an arms embargo against Mexican counter-revolutionists, tried to keep President Madero in power. But within two years he was deposed and executed by General Huerta—the British favourite. Huerta was openly opposed to the Yankee oil men and generous to Lord Cowdray. The latter confessed he was a subscriber to the Huerta counter-revolutionary "loan."

Mr. Wilson had become President in Washington. He was as anxious to block British oil expansion in Mexico as was his Republican predecessor, Mr. Taft. President Wilson's attitude, as reported by his *alter ego*, Colonel E.M. House, was: "We do not love him, for we think that between Cowdray and Carden [British Minister in Mexico] a large part of our troubles in Mexico has been made."[52] Minister Carden was trying to get supplies for the British navy, which was being converted rapidly to oil-fuel power under the Fisher program for war with Germany. Colonel House charged that General Huerta rewarded Lord Cowdray with concessions.[53] Great Britain and other nations had recognized the Huerta Government, but President Wilson refused on the ground that the United States "can have no sympathy with those who

seek to seize the power of government to advance their own personal interests or ambitions." At the same time, however, Mr. Wilson extended diplomatic recognition to a similar revolutionary government in Peru.

When the British Foreign Office sent Sir William Tyrrell to Secretary of State Bryan to lessen the tension over Mexico, the latter told Sir William: "The Foreign Office had simply handed its Mexican policy over to the oil barons for predatory purposes." The British diplomat replied: "Mr. Secretary, you are talking just like a Standard Oil man ... you are pursuing the policy which they have decided on."[54] This exchange of diplomatic amenities is recounted in the *Life* of Page. It was Mr. Page, then American Ambassador to London, who asked:

"What the devil does the oil or commerce of Mexico or the investments there amount to in comparison with the close friendship between the United States and Great Britain? The two countries should agree upon this primary principle—to leave their oil interests to fight their own battles, legal and financial." No one else in power agreed with the Ambassador.

"Mr. Wilson had many tempestuous conflicts with the British Foreign Office over the apparent support given to the Huerta regime by Sir Lionel Carden, the British Minister to Mexico, a support intensified to no small extent by the large British oil companies in Mexico whose influence in London official circles was appreciable," according to Mr. David Lawrence.[55]

The Democratic and "Liberal" President was rapidly approaching the position of that heavy investor in Mexico and future dealer in American naval oil reserves, Mr. Fall. The latter was then demanding in the Senate that United States forces be ordered into Mexico to protect American lives and property "and lend their assistance to the restoration of order and the maintenance of peace in that unhappy country and the placing of the administrative functions in the hands of capable and patriotic citizens of Mexico."[56]

While the British Foreign Office was uncovering the Standard pipe-lines leading into the White House and State Department, the American "Independents" were openly drilling in Congress and the press. Mr. Doheny spoke frankly to the Senate Foreign Relations Committee, which in 1913 was holding hearings on "Revolutions in Mexico."

"Inasmuch as both Germany and Great Britain are seeking and acquiring sources of supply for large quantities of petroleum, it seems to me that there can be no question but that the United States must avail itself of the enterprise and ability and pioneer spirit of its citizens to acquire and to have and to hold a reasonable portion of the world's petroleum supplies," declared this pioneer in Mexico. "If it does not, it will find that the supplies of petroleum not within the boundaries of United States territory will be rapidly acquired by citizens and governments of other nations. ... This oil field, discovered by Americans ... having a reasonable oil valuation of some billions of barrels, is the source to which the United States must look for the supply of petroleum which will justify the building of a commercial fleet that can compete for cost of operation with any other fleet which the great nations of the world may have or construct."[57]

At this point a new factor emerged which has since continued to influence United States-Mexican relations. Washington began to worry about the effect on Central America of Mexico's example of nationalist revolution and defiance of Yankee interference. Here was a "menace" to the muchexpanded and reinterpreted Monroe Doctrine. What of the safety of the Panama Canal? President Wilson presented the Mexican problem to Congress from this angle.

"The present situation in Mexico is incompatible with the fulfilment of international obligations on the part of Mexico, with the civilized development of Mexico herself, and with the maintenance of tolerable political and economic conditions in Central America," the Chief Executive said[58] And again he added, "Mexico lies at last where all the world looks on. Central America is about to be touched by the great

routes of the world's trade and intercourse running free from Ocean to Ocean at the Isthmus. The future has much in store for Mexico, as for all the states of Central America; but the best gifts can come to her only if she be ready and free to receive them and to enjoy them honourably."

Having prepared the ground at home, he instructed United States consuls south of the Rio Grande "to convey to the authorities an intimation that any maltreatment of Americans is likely to raise the question of intervention." These instructions were followed by orders from Secretary Bryan to United States representatives to make known to Mexico the President's "clear judgment that it is his immediate duty to require Huerta's retirement from the Mexican Government, and that the Government of the United States must now proceed to employ such means as may be necessary to secure this result."[59] In the same month, November 1912, further orders were dispatched to "cut him [Huerta] off from foreign sympathy and aid and from domestic credit, whether moral or material, and to force him out. ... If General Huerta does not retire by force of circumstances it will become the duty of the United States to use less peaceful means to put him out." And this was following a relatively peaceful Mexican election in which President Huerta retained office.

Realizing belatedly that Washington would use military force if necessary to unseat the alleged British puppet, London tried to have a hand in picking the next dictator of Mexican concessions. This would have the double advantage of putting the new President partly under obligation to Britain, and at the same time enable the British Government to appear to save helpless Mexico from intervention by the hated Colossus of the North. London therefore proposed that European Powers join in requesting President Huerta to resign, enabling him to get out but to "save his face."

Washington had no intention of sharing with Britain its "duty" of pacifying Mexico. Such a precedent might jeopardize the Monroe Doctrine, not to think of the American oil wells there desired by British

Government companies. Secretary Bryan replied to Downing Street that President Wilson "warmly appreciates" the British proposal which, however, he must reject. The President instead intended to dispose of Huerta by giving American aid to the rebel chiefs. Or, as Mr. Bryan expressed it in his British note: "There is a more hopeful prospect of peace, of the security of property and of the early payment of foreign obligations if Mexico is left to the forces now reckoning with one another there. ... He [President Wilson] intends therefore, almost immediately, to remove the inhibition on the exportation of arms and ammunition from the United States."[60]

The President was less successful at first in preventing Latin American governments from attempting to save Mexico from a Yankee-dictated settlement. But the result was the same. Wilsonian fears regarding the effect on Latin America of the Mexican revolutionary example were materializing. In an unexpected manner, however. Latin Americans apparently had been only mildly interested in Mexican oil and land legislation. But they became exceedingly alarmed over the spectacle of a sister Latin American country as a victim of the United States' alleged imperialistic intervention. Their uneasiness increased when President Huerta asserted: "Mexico is defending not only her national sovereignty but that of all Latin America as well." When Argentina, Brazil, and Chile, the three strongest South American governments, were moved by Mexican sympathy and a spirit of Latin American solidarity to offer to conciliate the Huerta-Wilson dispute, the American Executive found it expedient to accept—and equally expedient to block the ABC conference at Niagara Falls when it met. The Washington Government unaided was thus successful in putting out President Huerta through direct intervention, and at the same time was able effectively to sabotage South America's effort to check growing Yankee control in the Caribbean countries.

When the Panama Canal tolls issue came to the fore, Washington was able to force Downing Street, though not the British oil men, to withdraw active support from General Huerta. Mr. Wilson then isolated

the Huerta regime by a financial and munitions blockade, later permitting the rebel chiefs Carranza and Villa to get American arms. He used the Tampico flag incident as one excuse for American naval and military occupation of Vera Cruz, although General Huerta had apologized and offered to submit the dispute to The Hague tribunal for arbitration.[61]

American oil companies did their share in helping the President to get rid of the pro-British Huerta. They refused to pay taxes to his Government, and gave financial support to General Carranza. At the U.S. Senate Committee hearings in 1919 Mr. Doheny expressed the opinion that "every American corporation doing business in Mexico extended sympathy or aid, or both—and we extended both—to Carranza. ... It was a well-known fact that the British assisted in the sale of a large amount of Huerta bonds and they were distinctly favourable to the Huerta Government at that time. Our Government had shown its animosity to Huerta and its desire to support his opponents. So that our action was in line with our Government and that of the British [oil interests] was in line with the supposed sympathies of the British Government."[62] Mr. Doheny added that he advanced General Carranza $100,000 in cash and $685,000 in fuel credits.

But when President Carranza assumed office he did not reward his American oil friends. Instead he endeavoured to "vindicate" the 1911 revolution. The Carranza Constitution of 1917 attempted to regain for the Mexican people some of the country's natural riches which had been parcelled out for a price by the dictator Diaz to foreign companies.

Since 1917 the American-Mexican conflict has centred around the Washington contention that Article 27 of the Constitution, and the laws and decrees putting that Article into effect, are retroactive and confiscatory. The Mexican Government from the beginning denied these charges and defended its sovereign right to enact the disputed measures.

Article 27 provides: "The ownership of lands and waters comprised within the limits of the national territory is vested originally in the Nation which has had, and has, the right to transmit title thereof to private persons, thereby constituting private property. ... In the Nation is vested the legal ownership [*dominio directo*] of all minerals ... petroleum, and all hydrocarbons—solid, liquid or gaseous. ... Legal capacity to acquire ownership of lands and waters of the Nation shall be governed by the following provisions: 1. Only Mexicans by birth or naturalization and Mexican companies have the right to acquire ownership in lands, waters and their appurtenances, or to obtain concessions to develop mines, waters, or mineral fuels, in the Republic of Mexico. The Nation may grant the same right to foreigners, provided they agree before the Department of Foreign Affairs, to be considered Mexicans in respect to such property, and accordingly not to invoke the protection of their governments in respect to the same, under penalty in case of breach, of forfeiture to the Nation of property so acquired. Within a zone of 100 kilometres from the frontiers and of 50 kilometres from the seacoast, no foreigner shall under any conditions acquire direct ownership of lands and waters."[63]

Early decrees aiming to make effective this constitutional provision were not drastic, but left sufficient loopholes for American companies except in the matter of taxation. Therefore the State Department's note of protest of April 2, 1918, against the first regulatory decree, stressed the argument that excessive taxation is a form of confiscation. "While the United States Government," the note said, "is not disposed to request for its citizens exemption from the payment of their ordinary and just share of the burdens of taxation, so long as the tax is uniform and not discriminatory in its operation; and can fairly be considered a tax and not a confiscation or unfair imposition, and while the United States is not inclined to interpose in behalf of its citizens in case of expropriation of private property for sound reason of public welfare, and upon just compensation and by legal proceedings before tribunals, allowing fair and equal opportunity to be heard and giving due consideration to American rights, nevertheless the United States cannot acquiesce in any

procedure ostensibly or nominally in the form of taxation or the exercise of eminent domain, but really resulting in confiscation of private rights and arbitrary deprivation of vested rights."[64]

The Carranza Government informed Washington that the question of taxation was one of internal affairs inherent in its right as a sovereign state. "The action of the Mexican Government in this matter is not an innovation in international law, but the simple application of the principles of equality of nations practically forgotten by strong governments in their relations with weak countries," the Mexican note of August 17, 1918, stated. The State Department continued to hammer away on the issue of confiscation. By 1919 Mexican public opinion was pressing General Carranza to take a firm stand against interference from the north. In addressing Congress in September of that year he declared the American demands would "deliberately destroy our liberty for legislation and nullify the rights we have to progress in accordance with our ideas." Expressing the hope that "the northern Republic will respect the sovereignty and independence of Mexico," he affirmed that his Government "absolutely cannot accept the principle that the liberty of Mexicans to govern according to their own necessities should be limited."

Some American oil interests which had helped to place General Carranza in power were now trying as vigorously to overthrow him. The notorious General Pelaez, a local power in the Tampico district, who had been used by the oil men previously, was again brought forward as the "American hope." Within the period 1917-1919, American companies paid thousands of dollars for his "protection." In answer to a question in the Senate hearings as to whether the Washington Government was cognizant of this financial connexion between the oil companies and General Pelaez, Mr. Doheny testified: "Yes; not only aware of it, but, so far as they could without giving it in writing, they have approved of it."[65]

Article 27 had brought American and British oil men into a temporary entente for defence of their capitalist rights against the common menace of "nationalization." President Carranza's pro-German tendency completed his damnation so far as Anglo-Americans were concerned. The Great War made it inexpedient for Great Britain to continue the Mexican oil dispute with the United States. Hence the Carranza Constitution and the war created a temporary Anglo-American truce. The British broke the Mexican oil truce immediately after the Armistice in France.

Lord Cowdray had tired of operating oil properties suffering constant depredations by outlaw bands, allegedly hired by American oil men. But when he tried to sell part of his holdings to American competitors, the London Government intervened and forced the sale to Dutch-Shell and other British interests.[66]

In the spring and summer of 1920 the State Department protested new petroleum decrees of President Carranza. American companies contended that the decrees threatened confiscation of properties legally acquired before enactment of the objectionable Constitution. In repeating this argument the Department put into its note the veiled threat that it could not "remain insensible to the rights of its citizens."

When General Obregon came into power, Washington was determined as the price of diplomatic recognition to restrict application of the disputed Constitution to limits acceptable to the American oil men. President Obregon was of a different mind. He had been elected with agrarian and radical labour support.[67] His constituents were demanding a firm policy against alleged American encroachments. He was also under financial pressure. To fill the empty national treasury by reclaiming a share of the Mexican wealth flowing out through foreign pipe-lines and tankers, Señor Obregon put down a 60 per cent export tax. This initial act, and the apparent determination of the new Government to make effective the paper Constitution, seemed to leave no opportunity for Washington to support the new Government.

Here was a chance for the British. They had visions of displacing the Americans as the dominant factor in Mexican oil. To this end they dealt secretly and separately with Señor Obregon. All the protests of Secretary Fall could not stop them. They were playing for big stakes. Mexican Government estimates place the total oil investments including lands at $618,000,000. United States capital in 1923, with more than 58 per cent of total investments, had about 70 per cent of total production.[68] The British had only about 40 per cent of the investments and 27 per cent of production. There were other reasons for the British to deal separately with the Government. They were in a less vulnerable position under Article 27 than the Americans because of the early shrewdness of Lord Cowdray and other British companies in incorporating subsidiaries as Mexican companies.

President Obregon, instead of making separate terms with the British, played the foreign companies and governments against each other.

Paralleling these developments there was an oil "awakening" north of the Rio Grande. Talk in the United States of the menace of British oil invasion in the Americas and British exclusion policy abroad had resulted in the Federal Trade Commission investigation.

Washington in 1923 sought a settlement with Mexico. It wanted to check growing British power in the southern Republic, and so far as possible eliminate the Article 27 issue. It counted upon the Mexican financial stringency to put President Obregon in receptive mood. Such was the setting of the Warren-Payne negotiations in Mexico City which led to the agreement of September 1923.

The two Governments agreed to submit claims arising during the revolutionary and pre-revolutionary periods to special and general mixed claims commissions.[69] United States diplomatic recognition was accorded on the basis of a Mexican pledge not to apply retroactively the alleged confiscatory provisions of Article 27. That pledge was given in the negotiations at Mexico City, August 2, 1923. According to the official minutes, the Mexican commissioners stated:

"It is the duty of the Federal executive power, under the Constitution, to respect and enforce the decisions of the judicial power. In accordance with such a duty, the Executive has respected and enforced, and will continue to do so, the principles of the decisions of the Supreme Court of Justice in the Texal Oil Company case and the four other similar *amparo* cases, declaring that paragraph IV of Article 27 of the Constitution of 1917 is not retroactive in respect to all persons who have performed, prior to the promulgation of said Constitution, some positive act which would manifest the intention of the owner of the surface or of the persons entitled to exercise his rights to the oil under the surface to make use of or obtain the oil under the surface. ...

"The above statement has constituted and will constitute in the future the policy of the Mexican Government, in respect to lands and the subsoil upon which or in relation to which any of the above-specified acts have been performed, or in relation to which any of the above specified intentions have been manifested; and the Mexican Government will grant to the owners, assignees or other persons entitled to the rights to the oil, drilling permits on such lands, subject only to police regulations, sanitary regulations and measures for public order and the right of the Mexican Government to levy general taxes. ...

"The American Commissioners have stated in behalf of their Government that the Government of the United States now reserves, and reserves should diplomatic relations between the two countries be resumed, all the rights of the citizens of the United States in respect to the subsoil under the surface of lands in Mexico owned by citizens of the United States, or in which they have an interest in whatever form owned or held, under the laws and Constitution of Mexico in force prior to the promulgation of the new Constitution, May 1, 1917, and under the principles of international law and equity."[70]

As a result of the claims conventions, a foreign debt-funding agreement, and the Warren-Payne oil-land settlement, the Washington Government decided to support the Obregon regime as effectively as it had opposed

previous administrations. Such an opportunity soon came. Adolfo de la Huerta, a former Obregon Minister, started a counter-revolution. Some American oil interests backed the rebellion. Its success, at least in part of the country, seemed assured provided Senor de la Huerta could get the American money and arms Mexican rebel chiefs were accustomed to receive. But Washington took effective measures to strangle the revolt. With the consent of New York bankers and some of the larger American oil interests, the State Department placed an embargo on shipments of arms and munitions to the rebels. As a double precaution against overthrow of Obregon, the Department sold to him military supplies of the United States army. In January 1924 the rebels made the mistake of defying the United States with an attempted blockade of Tampico, chief oil port. Washington dispatched the cruiser Richmond to Tampico and within a week the blockade was abandoned. The counter-revolutionists, lacking American monetary and military support, were soon defeated by the Obregon forces.

The Washington Administration had to explain to the American public and to the world its intervention in the civil war of a neighbouring state. There was a large body of American public opinion which, though sympathetic with President Obregon, opposed such partisan action which might be used by some future Administration as a precedent for less acceptable intervention.

Secretary of State Hughes defended his policy on "moral" grounds, incidentally mentioning the oil factors involved. In a campaign document published by the Republican National Committee in 1924, Mr. Hughes explained:

"It [the de la Huerta revolt] was not a revolution instinct with the aspirations of an oppressed people; it was a matter of personal politics. It was an effort to seize the Presidency; it meant a subversion of all constitutional and orderly procedure. The contestants, seeking to overthrow the established Government, had taken possession of certain portions of the Mexican territory, and either were claiming tribute from

peaceful and legitimate American commerce or were attempting to obstruct and destroy it. ... The refusal to aid the established Government would have thrown our moral influence on the side of those who were challenging the peace and order of Mexico, and we should have incurred a grave responsibility for the consequent disturbances."[71]

Decisive aid given the Obregon regime at a time of peril, and Mr. Hughes's moral defence of such action, must be understood to appreciate the bitterness of Washington's reaction later, when President Obregbn allegedly "bit the hand that fed him." In payment for American services received, the Mexican President was expected to put Article 27 in cold storage and keep it there. For a while this seemed to be the intention in Mexico City.

There was a brief reassertion of Mexican "rights" in the case of American oil interests which had willingly or unwillingly subsidized the counter-revolution by paying taxes to the rebels. But the State Department quickly forced President Obregon to back down. Mr. Hughes also explained this and other diplomatic oil victories over Mexico in that same 1924 campaign document.

"When the Mexican Government regained control of territory which had been temporarily occupied by rebels, Federal and state authorities attempted to force American citizens to repay taxes, duties and other charges previously paid to *de facto* authorities," he said. "The [State] Department made representations to the Mexican Government, pointing out that, under the generally accepted rules and principles of international law, American citizens are entitled to pay duties and other taxes to persons exercising *de facto* authority and having made such payment to be free from further obligation in the matter. The outcome of the Department's action was gratifying, as the Mexican Government promptly issued definite instructions to the appropriate agencies in Mexico that repayment of such duties and taxes should not be required. Furthermore, the Department made continuous efforts to obtain adequate protection for American properties during the revolutionary disturbances

and these efforts were highly successful, as the losses and damages suffered by the American interests concerned were kept down to a minimum."[72]

This Mexican-American accord was short-lived. Mr. Hughes left the State Department in March 1925, at the beginning of the "second" Coolidge Administration, to become counsel for the American Petroleum Institute, Standard Oil, and other corporations. General Obregon was succeeded by his friend, President Calles. Senor Calles was elected with the militant support of the CROM, or Mexican Federation of Labour. The CROM demanded that Article 27, after long delay since 1917, should now be made effective.

To handle this delicate situation, the United States had Ambassador Sheffield in its Mexico City Embassy and Mr. Frank B. Kellogg in the State Department. Soon there was trouble. Mr. Sheffield was summoned to Washington. President Coolidge through his "Official Spokesman" assured the country that all was well with Mexican relations. Mr. Sheffield also gave an interview to the press stating that Mexican conditions from the point of view of American interests were "hopeful." But a few hours later, on June 12, 1925, Secretary Kellogg issued an astounding statement, which had been approved earlier in the week by Mr. Coolidge and the Ambassador.

The Kellogg statement precipitated two and a half years of strained relations, in which the United States repeatedly was on the paint of breaking diplomatic relations or of intervening directly against the Calles regime. It placed the Mexican Government "an trial before the world." It gave encouragement to a counter-revolutionary movement being planned by certain American oil companies. It gave a battle cry to the radical supporters of President Calles who were demanding that he make effective the constitutional restrictions against foreign companies. The Kellogg statement is one of the few insults of its kind in diplomatic history which was not followed by diplomatic rupture or by war. It probably will be in the future, as in the past, an incentive to

antiAmericanism in Mexico and in other Latin American countries where Yankee oil men operate.

"Our relations with the Government are friendly but, nevertheless, conditions are not entirely satisfactory and we are looking to and expect the Mexican Government to restore properties illegally taken and to indemnify American citizens," Mr. Kellogg announced. "A great deal of property of Americans has been taken under or in violation of the agrarian laws for which no compensation has been made, and other properties practically ruined and, in one instance, taken by the Mexican Government on account of unreasonable demands of labour. Mr. Sheffield will have the full support of this Government and we will insist that adequate protection under the recognized rules of international law be afforded American citizens. We believe it is the desire of the Mexican Government to carry out the [claims] conventions and to indemnify American citizens for property taken. So long as we are satisfied that this is the policy of the Mexican Government and this course of action is being carried out with a determination to meet its international obligations, that Government will have the support of the United States. ...

"I have seen the statement published in the press that another revolutionary movement may be impending in Mexico. I very much hope this is not true. This Government's attitude toward Mexico and toward threatened revolutionary movements was clearly set forth in 1923 when there was such a movement threatening the constituted Government of that country, which had entered into solemn engagements with this Government and was making an effort to meet those obligations at home and abroad. The attitude taken by this Government at that time has since been maintained and it is now the policy of this Government to use its influence and its support in behalf of stability and orderly constitutional procedure, but it should be made clear that this Government will continue to support the Government in Mexico only so long as it protects American lives and American rights and complies with its international engagements and obligations. The

Government of Mexico is now on trial before the world. We have the greatest interest in the stability, prosperity and independence of Mexico. We have been patient and realize, of course, that it takes time to bring about a stable Government but we cannot countenance violation of her obligations and failure to protect American citizens."[73]

President Calles of course replied in kind. A group in each country pressed for an immediate break in diplomatic relations. Belligerent Americans wanted to "clean up Mexico." In Mexico City there was much talk of "answering the Yankee insult." But a majority group of American oil interests and New York bankers decided "anything might happen to American property" if the United States withdrew its diplomatic representatives. So Mr. Sheffield returned to his post and the battle of oil notes began.

Ten notes and memoranda were exchanged from November 1925 to March 1926[74] concerning the petroleum law, which was passed on December 18 in the midst of the diplomatic barrage. These exchanges cover from many angles the basic dispute between the United States and Mexico, which will probably reappear at intervals to threaten peaceful relations until Mexican wells cease to flow. These notes also probably outline the anticipated diplomatic conflict between the United States and other Latin American oil countries such as Venezuela and Colombia. A summary of the notes, previously published by the author, follows:

Secretary Kellogg's communication of November 17, an "aide mémoire of personal message," appealed to Mexico to remove "the clouds which I perceive on the horizon of friendship between the two countries" and suggested a new treaty of amity and commerce in line with the Warren-Payne Agreement of 1923. He pointed out the "economic aspects and consequences" of the proposed objectionable laws.

The Mexican Government replied on November 27 that there were no clouds on the horizon, that it was ready to negotiate a new treaty and that the pending law "has respected Americans in their acquired rights."

It denied, however, that the Warren-Payne Agreement resulted "in any formal agreement other than of the claims conventions."

On the same day the United States answered, expressing its "genuine apprehension" and repeating that the bill would "operate retroactively" and be "plainly confiscatory" in effect. Objection was also raised "to the provision requiring foreigners to waive their nationality and to agree not to invoke the protection of their respective Governments so far as their property rights are concerned under penalty of forfeiture."

On December 7 the Mexican Government replied, objecting to representations regarding pending laws still in a formative state, which it claimed could not be fairly judged until put into effect. The note added that similar and more severe laws existed in the United States regulating property acquisition by foreigners and cited Illinois laws as an example. The Arizona law, also cited, provides that only American citizens may acquire property and limits alien holdings in corporations to 30 per cent.

In a memorandum of December 22 the United States cited decisions of the Illinois courts holding that the Illinois law of 1887 could not be applied retroactively or given confiscatory effect. It then referred to a section of the Arizona law expressly limiting the alien restrictions to "future acquirements."

Following passage of the Mexican law, the United States on January 8 reaffirmed its objections.

Mexico on January 20 insisted that the executive decree to be issued would prove that the law was non-retroactive. Considerable space was given in defence of provisions regarding so-called "positive acts," by which alien subsoil holders were required to prove that, by drilling or other acts, they had actually acquired oil titles.

Referring to the Warren-Payne Agreement, Mexico declared that its commissioners and President could not legally limit the constitutional powers of its Congress.

It cited as a similar case the "gentlemen's agreement" between the American and Japanese Executives regarding immigration, which the American Congress later modified.

On January 28 the United States acknowledged the Mexican promise that the executive decrees would remove American objections to the law. This Government added, however, "that the exchange of a present title for a concession having a limited duration does not confirm the title."

On February 12 Mexico used the American Prohibition law to prove that this Government itself had destroyed property rights. The Mexican note said in this connection:

"When the Prohibition law was enacted in the United States it paralysed established businesses falling under its provisions (the amendment meant to stop the whole business, Hamilton vs. Kentucky Distilleries, 251 U.S. 146, 151, No. 1), and completely to paralyse a business would seem to be tantamount to destroying lawfully acquired rights therein, but nevertheless the American Government was not deterred by that consideration."

Secretary Kellogg replied on March 1 that "the liquor business in the United States has not been a property right, but a licensed occupation which was subject to the fullest extent at all times to the police powers of the States, to licence by the United States, to the war powers of the Federal Government and now subject under the constitutional amendment to the police powers of the United States."

The final Mexican note of March 27, after answering in an apparently satisfactory manner Secretary Kellogg's request for assurances that Articles 1, 2 and 3 of the land law would not be applied retroactively, gave the following interpretation of the much disputed Articles 4 and 5:

"It is true that an alien who, prior to the going into effect of the law, represented 50 per cent, or more of the total interest of any kind of

association holding rural property for agricultural purposes, may retain the said interest without any need of a permit or without complying with Article 2, and that the right of his heirs to such interest in excess of 49 per cent is provided for in Article 6. As to its effect, however, upon foreign companies holding stock in Mexican companies under the aforesaid conditions, they must dispose of the said corporate interest in excess of 49 per cent within the term of ten years; which does not mean that the law is given retroactive effect in its application, since it has to do with an act in the future and not with an act in the past; but if any dispute should arise on that point, that is to say, as to whether or not the application of the law under the terms last mentioned is retroactive, it would be for the courts to determine it in accordance with the provision of Article 14 of the Constitution."

Article 14 of the Constitution provides that no law shall be given retroactive effect to the prejudice of any person whatever. The Mexican Supreme Court in five decisions has upheld Article 14 by ruling that Article 27 of the Constitution, which the disputed oil and land laws make effective, shall not be applied retroactively.

One argument advanced to justify acceptance of these Mexican assurances as satisfactory was that although that Government might in the future contend that titles lapse with the expiration of the confirmatory concessions, this would leave the American owner in the same but in no worse position than he had been in the period between the enactment of the 1917 Constitution and the passage of the land and petroleum laws in December 1925.

Mexico also in effect removed a second major American objection to provision of the law requiring alien owners or concessionaires to renounce protection of their own governments in respect to such specially acquired Mexican rights. Referring to the declarations of the Mexican commissioners who were party to the Warren-Payne Agreement of 1923, upon which this Government extended recognition to Mexico, Foreign Minister Saenz said:

"I have therefore no objection to acknowledging the declaration of the Mexican commissioners who affirmed in the name of my Government that 'they would recognize the right of the Government of the United States to make any reservation of the rights of its citizens or in their name,' which was made for the event of a resumption of diplomatic relations between the two countries. As admitted by Your Excellency, your note of January 28 referred to that reservation and said that 'during the negotiations of 1923 the American commissioners reserved in behalf of their Government all the rights of its citizens in respect of lands acquired by them in Mexico before May 1, 1917.'"

In another place the Mexican note stated: "that even though an individual should renounce applying for the diplomatic protection of his Government [as required by the law] the Government does not forfeit the right to extend it in case of a denial of justice."

The note gave a pledge that the laws regarded by the United States as confiscatory of American property would not be applied retroactively, but that renewable concessions would be given to American owners confirming their old ownership titles. Señor Saenz said: "I take these purposes [i.e., executive decrees] of the President of the Republic for my basis in extending to Your Excellency's Government my assurances that in the regulations on the subject the rights to the subsoil held by American citizens who had performed any of the positive acts enumerated in my note of January 20, will be confirmed." The "positive acts" referred to, and certain police powers governing the execution of the laws, were among the points remaining for clarification, either by the Mexican Congress or the Mexican courts or by both.

As a result of assurances given in the final Mexican note, there was a lull in the controversy. American newspapers generally described the situation as promising. The State Department changed its tone. All official Washington utterances were of hopeful character.

About this time Roman Catholic agitation in the United States was aroused by the alleged church persecution policy of the Calles

Government, which had closed religious schools and convents and restricted political activities of the clergy.[75] The anti-Mexican campaign of certain archbishops and the Knights of Columbus in this country had an unintentional beneficial effect for Calles. It stimulated counter-pressure from certain Protestant and Ku Klux Klan groups. With this religious issue threatening to divide the American electorate, a situation was being created in which the State Department could not move against Calles in the oil controversy without being dubbed by the Klan as the "tool of Rome." So when some American oil interests lost faith in the sincerity of Mexican pledges not to apply the law retroactively, the Washington Administration found it expedient to counsel patience. A compromise settlement was thus in sight. Suddenly, however, a new issue arose. That issue was Nicaragua.[76]

From that time Nicaragua was the crux of the dispute, though Washington, with an eye to anti-Yankee feeling in Latin America, used oil as a screen for the larger issue.

The United States at the time was in a difficult position in relation to Nicaragua. General Chamorro, United States adherent and former President, had been defeated in the presidential election. He had then overthrown by force the constitutional Government. Washington could not expediently recognize his regime because of the 1923 treaty among the Central American Republics, which it had sponsored and approved. That treaty pledged non-recognition of revolutionary governments, a principle generally beneficial to the stability and order desired by American commercial interests in Central America. The deposed President Solorzano having fled to California, Vice-President Sacasa with support of the Liberal Party claimed to be the head of the constitutional Government. Civil war followed. Washington offered its "good offices." In October 1926 a peace conference was held at Corinto, with Admiral Latimer, American, acting as chairman. General Diaz, formerly an employee of American business interests, who had been lifted from a clerkship to the presidential chair during the previous American military intervention, was put forward in the Corinto

Conference as a compromise candidate. The Liberals rejected him as a man distrusted by the Nicaraguan people for being an alleged "tool of New York bankers." Americans charged that the revolutionists refused to accept Diaz and defied the United States because of alleged orders from Mexico City.

Dr. Sacasa, as a fugitive, had spent several months in Washington. He was friendly to American interests in Nicaragua. For a time the State Department considered recognizing him as President. When it was apparent Senor Diaz would obtain Washington's favour, Dr. Sacasa started for the east coast of Nicaragua to establish a revolutionary capital. Mexico recognized him. Four ships carrying Mexican munitions to the rebels were traced by Washington. United States marines earlier had landed at Bluefields on the east coast to establish a "neutral zone." The revolutionists charged this was an unfriendly act of intervention aimed against them. But the White House vigorously denied any intention to intervene. Meanwhile General Chamorro, convinced of the impossibility of carrying on against Washington's disapproval, was preparing to leave the country. Machinery was oiled for making Seiior Diaz "constitutional" President. After a brief interim in which an unimportant senator sat in the unstable presidential chair, General Diaz on November 11, 1926, was elevated to that position by a specially-summoned Congress. Three days later he was recognized by the United States.

Washington had revived the Mexican oil dispute and used it as a weapon in the larger struggle. Despite United States marine "neutral zones" in the territory where rebels were victorious, Diaz was threatened with defeat. He requested formal American intervention. Battleships and more marines were sent. Senator Borah led a group in Congress supporting constitutional claims of the unrecognized Sacasa Government.[77] The Administration stated the issue as Mexico versus the United States in Central America and the Caribbean. Stories were written and speeches made regarding the alleged "Mexican bolshevist menace thrusting itself between the United States and the Panama

Canal."[78] President Coolidge, in a special message to Congress on January 10, 1927, explained his intervention policy on the ground that special interests of the United States in Nicaragua were at stake. He said:

"As a matter of fact, I have the most conclusive evidence that arms and munitions in large quantities have been on several occasions since August 1926 shipped to the revolutionists in Nicaragua. Boats carrying these munitions have been fitted out in Mexican ports, and some of the munitions bear evidence of having belonged to the Mexican Government. It also appears that the ships were fitted out with the full knowledge of and, in some cases, with the encouragement of Mexican officials and were in one instance, at least, commanded by a Mexican naval reserve officer. ... The proprietary rights of the United States in the Nicaraguan canal route, with the necessary implications growing out of it affecting the Panama Canal, together with the obligations flowing from the investments of all classes of our citizens in Nicaragua, place us in a position of peculiar responsibility. ... We have a very definite and special interest in the maintenance of order and good government in Nicaragua at the present time, and that the stability, prosperity, and independence of all Central American countries can never be a matter of indifference to us. The United States cannot, therefore, fail to view with deep concern any serious threat to stability and constitutional government in Nicaragua tending toward anarchy and jeopardizing American interests, especially if such state of affairs is contributed to or brought about by outside influences or by any foreign Power. It has always been and remains the policy of the United States in such circumstances to take the steps that may be necessary for the preservation and protection of the lives, the property, and the interests of its citizens and of this Government itself."[79]

Three months later the President declared in a United Press speech in New York:

"Toward the governments of countries which we have recognized this side of the Panama Canal we feel a moral responsibility that does not attach to other nations. We wish them to feel that our recognition is of real value to them and that they can count on such support as we can lawfully give when they are beset with difficulties. We have undertaken to discourage revolutions within that area and to encourage settlement of political differences by the peaceful method of elections. This policy is bound to meet with some discouragements, but it is our hope and belief that ultimately it will prevail."[80]

The Mexican Government denied it was supplying Nicaraguan rebels with money and munitions but affirmed its right to give such aid to a Government recognized by it, as Washington was helping Diaz.

The Nicaraguan dispute created an atmosphere in which settlement of the oil controversy was impossible. In the eyes of Washington the issue had become one of prestige in Latin America. The Administration was determined that the world should know that no foreign Power could challenge United States supremacy in the Caribbean. Washington was prepared at any cost to demonstrate its strength. If a Nicaraguan revolutionary party with the aid of Mexico could defy Washington's will, anti-Yankee forces in the other Central American countries would be encouraged to do likewise. Thus strengthened, Mexico would be less ready to retreat from its "radical" oil legislation. The example of radical Mexican laws might spread southward to all Latin America. So at least Washington officials believed.

The Administration policy was successful from the State Department's point of view. The Nicaraguan revolutionists, on the verge of military victory at the gates of the Diaz capital, Managua, were forced by the United States to make terms. Col. Henry L. Stimson, former Secretary of War and later Governor-General of the Philippines, went to the war zone as President Coolidge's special representative. He divided the revolutionists. Sacasa refused to accept his terms, but General bloncada and most of the Liberal forces surrendered their arms to the marines.

Col. Stimson's "pacification program" provided for disarming of both sides, the United States to police the country and guarantee a free and fair election in 1928, President Diaz remaining in power in the interim. General Sandino sided with Sacasa and against Moncada in refusing to accept the Stimson terms. He fled to the hills with several hundred armed followers. Marine casualties, and American bombing of native villages held by Sandino, revived United States congressional opposition to the intervention policy. But despite this, and Sandino's continuance in the field,[81] it appears in 1928 that the Nicaraguan revolution is broken for a little while. Charges of Mexican aid to the rebels are no longer being made.

When the Senate, at the height of the Nicaraguan controversy, unanimously passed a resolution favouring arbitration of issues between this country and Mexico, the State Department shelved the proposal. This action was in accord with the President's policy. In his United Press speech he said:

"Under the present circumstances I can see grave difficulties in formulating a question which the two Governments would agree to submit to such a tribunal. The principle that property is not to be confiscated and the duty of our Government to protect it are so well established that it is doubtful if they should be permitted to be questioned. Very likely Mexico would feel that the right to make a constitution and pass laws is a privilege of her sovereignty which she could not permit to be brought into question."

Washington's hostility to Calles during the Nicaraguan dispute encouraged certain American oil interests to support counter-revolution in Mexico. The State Department applied its arms embargo against the Mexican Government. Generals Gomez and Serrano prepared their military revolt. Both were presidential candidates, opposing former President Obregon, ally of President Calles. General Gomez promised American oil men to modify objectionable oil laws and regulations in line with State Department demands.[82]

Describing the connexion of some American officials and petroleum agents with Mexican counter-revolution during the Sheffield regime, Mr. Walter Lippmann, an editor of the New York *World*, wrote from Mexico City later:

"It is a notorious fact, for example, that in the recent past the personal associations of the United States officials were not with the Government to which they were accredited, but with that class of Mexicans, among whom are to be found the rich, cultivated and sometimes charming people, who are financing and provoking armed rebellion. It is no less a notorious fact that many of the lawyers and representatives of the oil companies were not satisfied to argue their claims under international law, but openly and persistently used all the influence they possessed to undermine the stability of the Mexican Government."[83]

Whatever the degree of tangible and moral aid given the enemies of the Calles Government by Americans, it was not enough to save the rebellion of October 1927. After brief fighting, the few deserting Federal troops disbanded or surrendered. Gomez and Serrano were caught and executed.

Though the Calles-Obregon party had won on the military field, it was losing on the economic front. Restrictive legislation and consequent sabotage by American companies had reduced oil production and Mexican revenues. Production dropped from 193,000,000 barrels in 1921 to 90,000,000 in 1926 and to 64,000,000 in 1927.[84] Oil revenues fell from $42,000,000 in 1922, when they constituted almost one-third of the Government's regular income, to less than $18,000,000 in 1926 and an estimated $14,000,000 in 1927. A fall in the price of silver, Mexico's second most valued export, increased the Government's financial stress. Mexico needed American capital.[85] Why continue the struggle against the stronger Power of the north?

As this conciliatory mood grew in the Presidential Palace in Mexico City, important changes were occurring in Washington. A national political campaign was coming on. The Senate had passed its arbitration

resolution. Protestant opinion was suspicious of anti-Mexican policy. The New York bankers wanted payment on the funded Mexican foreign debt under the Lamont Agreement, but saw little prospect of getting their money unless Mexico was helped along the road to economic recovery. The oil men themselves were restive. A minority had supported the Gomez-Serrano revolt, and failed to dislodge the Calles-Obregon combination. The majority group wanted a State Department policy that would produce results. A theoretic victory in a diplomatic argument would not produce oil. Their capital was tied up in the Mexican field. No profits were coming in. So far as the White House was concerned its Nicaraguan victory had saved United States prestige, and Mexican gun-running had ceased.

Out of these political and economic factors sprang a new "policy." President Coolidge took charge. Ambassador Sheffield, symbol of the unfriendly policy, was "allowed" to resign. Mr. Dwight W. Morrow, friend of the President and Morgan partner, was chosen as the new Ambassador. Mr. Morrow was expected to go to Mexico City, cut diplomatic red tape, get directly to President Calles and obtain a settlement. Thus a mood of compromise in both capitals made possible the quick developments which followed.

Immediately the Mexican Supreme Court handed down a long-awaited decision favourable to American oil interests. The unwritten decision upheld an *amparo* or injunction obtained by the Pan-American subsidiary, Mexican Petroleum Company of California (Standard), in the lower courts.[86] The *amparo* restrained the Mexican Government from enforcing its denial of drilling permits to companies not complying with the disputed petroleum law. Companies representing about 75 per cent of Mexican oil production had failed to comply. In upholding rights of the companies to drill, a verbal decision of Supreme Court justices declared unconstitutional certain provisions of the law.

Article 14 of the law required all foreign companies within one year to exchange titles for 50-year "confirmatory concessions." Article 15

provided that companies should lose their rights for non-compliance with Article 14. The Supreme Court by a nine to two decision in the case held Articles 14 and 15 unconstitutional. This decision was hailed in Washington as "a step in the right direction," but it was pointed out that the full purport of the decision could not be determined until the justices put it in written form. This had not been done up to May 1928. The effect of the ruling was also limited by Mexican procedure requiring five similar decisions to establish "jurisprudence." Furthermore the Texas Company *amparo* case of several years previous was recalled, when even five Supreme Court decisions favourable to American companies had not restrained Mexico from continuing its restrictive legislation and decrees.[87]

American oil men were divided in their attitude toward the Court's decision. Their representatives in Mexico City inclined to a more favourable interpretation than that of New York executives and lawyers. Legalists in New York argued that the decision did not declare the petroleum law as such unconstitutional; that the "positive acts" provision of the law, under which companies might lose undeveloped lands, still stood; that companies must still prove titles. This point of view was expressed by the *Wall Street Journal* December 6, 1927, as follows:

"The only thing the Court decided was that the cancellation of the permits in this one case was wrong because a 50-year limitation could not be put on a title in fee simple. Owners of leaseholds that have less than 50 years to run must surrender their titles to the Government and accept a 'concession.' The Court utterly failed to pass upon or even notice the oil company's complaint that the law deprives a foreign corporation of the right of ownership. The decision leaves the American oil companies sitting on a limb with the confiscatory saw at work between them and the trunk of the tree."

In questioning the decision's value New York stressed the alleged desire of Luis N. Morones, labour leader and Mexican Minister of Industry,

Commerce, and Labour, to ignore the ruling. Senor Morones through his Ministry's official bulletin, *Revista Mensual de Petroleo*, characterized these reports as "malicious propaganda." He affirmed the Government's decision to interpret the law in the spirit of the decision, though that decision as yet lacked legal effect. The bulletin stated:

"The Supreme Court, on giving its judgment, respects the fundamental principles of our legislation and fixes the policy, which ought to adjust the true interpretation of the petroleum law as in the case which has just been judged. Thus, in the case just presented, the Court has solved a conflict in the application of the petroleum law, and has signalized the interpretation which it should give in a concrete case submitted to its justice; it is now the corresponding duty of the Secretariat of Industry to give compliance to this decision, and therefore will give it its respectful obedience as on former occasions, where former similar decisions have been rendered by this same Court, although there have been efforts at some times, by offending propaganda against our Government, to make it appear just the opposite."[88]

Despite the suspicious attitude of some oil interests, Ambassador Morrow advised that the Court decision be taken as evidence of Mexico's intention to deal justly with American property rights—and as basis of hope for further action of the same character. Mr. Morrow meanwhile arranged for Col. Charles A. Lindbergh, America's "Ambassador of Good Will" and hero of the New York-Paris non-stop flight, to fly from Washington to Mexico City. Col. Lindbergh's visit had the desired effect of stimulating better feeling on the part of the Mexican masses toward the Colossus of the North. At the same time Mr. Will Rogers, "Ambassador of Wit," was the guest of President Calles.

Under Morrow direction, the State Department refused to give comfort and aid to the Hearst newspapers, which were publishing an alleged documentary expose, purporting to prove the Mexican Government guilty of bribing American publicists, clergymen and senators. President

Calles's half-brother, Consul-General Elias of New York, testified by invitation at the Senate hearings. In repeating the Mexican Government's denunciation of the documents as forgeries, the Consul-General requested the Senate Committee to examine all accounts of the Mexican Government in American banks and all telegraph and cable records pertaining to transmission of Mexican Government messages and funds. Such examination by the Committee completely cleared Mexican officials of guilt.[89] The Committee's handwriting experts declared the documents to be forgeries, Mr. Hearst's experts then joined in characterizing the papers as fakes. This episode, together with the gesture of the Mexican Consul-General in opening private records to inspection, tended to remove popular American suspicion of Mexico, as activities of Messrs. Morrow, Rogers, and Lindbergh had stimulated more friendly feeling in the neighbouring country.

While the United States was waiting for the written decision of the Mexican Supreme Court in the Mexican Petroleum *amparo* case, and for similar court decisions to eliminate the objectionable Articles 14 and 15 of the petroleum law, President Calles decided upon a short cut to a settlement. Mexican Ambassador Tellez in Washington urged a conciliatory policy. Calles also conferred with his predecessor in office, General Obregon, who was expected to be elected as his successor, and who therefore would have to carry out any commitments made by the existing Administration. Senor Obregon had become over a period of years one of the richest men in Mexico. In some of his land investments he was associated with American business interests. He felt the need of a working agreement between United States capital, for which Mr. Morrow was a spokesman, and Mexico, which was fronted with a serious reconstruction problem.

In December 1927, therefore, President Calles proposed sweeping amendments to Articles 14 and 15, which were passed by Congress. Texts of the original and amended provisions follow:[90]

Amended Law

Article 14.—The following rights shall be confirmed without cost by means of the issuance of confirmatory concessions:

I. Those derived from lands upon which petroleum exploitation works were commenced prior to May I, 1917.

II. Those derived from contracts entered into prior to May 1, 1917, by the owner of the surface or his representatives for petroleum exploitation purposes.

Confirmations of these rights shall be granted without limit of time when they must be made in favour of the owners of the surface; and according to the time stipulated in the contract in the case of rights from contracts entered into by owners of the surface or their representatives.

III. To the holders of pipe-lines and refiners who may be working at present by virtue of concession or authorization issued by the Department of Industry, Commerce, and Labour, and with reference to those same concessions or

Original Law

Article 14.—The following rights will be confirmed without any cost whatever and by means of concessions granted in conformity with this law:

I. Those arising from lands in which works of petroleum exploitation were begun prior to May 1, 1917.

II. Those arising from contracts made before May 1, 1917, by the superficiary or his successors in title for express purposes of exploitation of petroleum.

The confirmation of these rights may not be granted for more than 50 years computed in the case of Fraction I, from the time the exploitation works began, and in the case of Fraction II, from the date upon which the contracts were made.

III. The owners of pipelines and refiners who are at present operating by virtue of a concession or authorization issued by the Department of Industry, Commerce, and Labour, and as to what has reference to said

authorizations.

Article 15.—A period of one year shall be given, counted from the day following the publication of these reforms to the same day, inclusive, of the following year, to solicit the confirmation of the rights to which the preceding Article refers and which have not been the object of confirmatory petitions during the period primarily set in this Article.

This term having expired, those rights shall be considered renounced, and rights the confirmation of which has not been solicited shall have no effect whatever against the Federal Government.

Transitory Article. Confirmations solicited within the year of 1926, and upon which the respective title has not been issued, shall be granted, if lawful, in accordance with these reforms. Confirmatory titles already issued shall likewise be rectified in accordance therewith.

concessions or authorizations.

Article 15. Confirmation of the rights to which Articles 12 and 14 of this law refer shall be applied for within the period of one year, computed from the date of the going into effect of this law; that date having passed, said rights shall be considered as renounced and the rights, confirmation of which has not been applied for, shall have no effect whatever against the Federal Government.

New York oil officials and attorneys, who were suspicious of the Supreme Court decision in the Mexican Petroleum *amparo* case, were equally critical of the Calles amendments. Their objections were

reflected in a series of articles in the *Wall Street Journal*. That newspaper stated on December 30, 1927:

"When these amendments are adopted and duly promulgated, the petroleum law will be, in nearly all respects, the same as it is now. It will still contain the following features: 1. Owners of lands acquired before May 1, 1927, must surrender their fee titles to the Government and accept a concession in return. 2. Before they can receive a concession in return for the titles they have surrendered owners in fee must establish an absolutely perfect title. 3. Owners of leases must surrender their leaseholds and receive a concession. 4. The doctrine of positive acts remains unchanged. 5. Foreign corporations cannot receive concessions. ... The proposed amendments are a gesture and nothing more. They give the oil companies nothing. The law of 1925, as interpreted by the Department of State, is confiscatory. If the law is amended as proposed those confiscatory provisions will stand intact. With or without the amendments, the law is meant to take away the property of American owners without compensation. The situation is no different today from what it was a year ago."

But such fears did not prevent shares of the Mexican Petroleum Company, following the announcement of President Calles's amendments, from advancing in Wall Street 60 points within one day on a comparatively small turnover.

Additional court and administrative rulings soon indicated the speed with which Mexico was approaching the American idea of oil rights.

Señor Morones in a letter to Huasteca Petroleum on January 9, 1928, issued the following decision:

"In view of the consideration which preceded the bill of amendment submitted by the Executive, this Department believes that the petition for confirmatory concession on the part of a national or foreign company does not imply the renunciation of rights acquired before May 1, of

1917, such confirmatory concession operating as the recognition of rights which will continue in farce subject only to police regulations."[91]

The American Embassy at Mexico City informed the State Department:

"On January 7, 1928, a decision was handed down by the Third Supernumerary District judge of the Federal District granting *amparos* [injunctions] to the Huasteca, Mexican, Tuxpan and Tamiahua Petroleum companies. The decision of the District Court declares that Articles 2, 4, 14 and 15 of the Petroleum Law of December 26, 1925, are unconstitutional, the decision being based on the 'jurisprudence' of the Federal Supreme Court in the group of five cases known generally as the Texas *amparo* decision by which it was established that Article 27 of the Mexican Constitution in the matter of petroleum is not retroactive 'in spirit or in letter.' The District judge holds that inasmuch as this 'jurisprudence' is binding on him as a Federal judge until such time as it may be modified by the Supreme Court it binds him in his decisions. The decision of the judge appears to refer not only to fee properties but also to leases in the case of the Huasteca Company [fee and leases] and Tuxpan and Tamiahua companies [leases exclusively]."

President Calles on March 27, 1928, signed an executive decree, regulating and making effective the December amendments to the law. The decree stated, in part:

"Article 147. In conformity with the provisions of Article 15, amended, of the law, private individuals or companies possessing rights referred to in Article 14 shall petition for confirmation before the respective agency, according to its jurisdiction, or directly, before the Department of Industry, Commerce, and Labour, within the period of one year, counted from January 11, 1928. ...

"Article 150. The confirmation of rights, as mentioned in Article 14 of the law, shall be effected without cost and by virtue of a concession after proof of said rights, in the manner provided by Articles 151 and 152.

"Article 151. The rights derived from works done prior to May 1, 1917, referred to in Section 1 of Article 14 of the law should be proved in the manner established by the laws on the subject or on the strength of documents authentic in the opinion of the Ministry of Industry, Commerce, and Labour which technically prove that the said work has been done. ...

"Article 155. The confirmatory concessions shall be issued in accordance with the provisions of Article 14 of the law, without limitations of time when they be issued in favour of surface owners, and for the term stipulated in the contracts when they be issued in favour of lessees or concessionaires. ...

"Article 159. For the purposes of Article 4 of the law, if the holder of the rights recognized by Articles 12 and 14 of the said law and 157 of these regulations is a foreign company or a Mexican company with foreign stockholders, in accordance with the provisions in Article 5 of the Organic Law and Section I of Article 27 of the Constitution, and Article 10 of its regulations, such rights may be held by the said company during the life of the contracts from which they flow, or, if the case arise, for the life of the company according to the articles of association. ...

"The titles which may be issued in respect of those petitions shall contain a clause in which it is stated that their granting does not prejudice the confirmable rights which might exist in the lands they cover and which may have been invoked in due form in the remainder of the term established in Article 15, amended, of the law."[92]

As a result of the Calles decree, the State Department next day announced that the long dispute was practically over:

"The petroleum regulations just promulgated by President Calles constitute executive action which completes the process beginning with the decision made by the judicial branch of the Mexican Government on November 17, 1927, and followed by the enactment of the new

petroleum law by the legislative branch on December 26 last. Together these steps voluntarily taken by the Mexican Government would appear to bring to practical conclusion the discussions which began ten years ago with reference to the effect of the Mexican Constitution and laws upon foreign oil companies. The Department feels, as does Ambassador Morrow, that such questions, if any, as may hereafter arise can be settled through the due operation of the Mexican administrative departments and the Mexican courts."[93]

Though referred to so casually and lightly in this Department statement, the remaining questions in fact are considered very important by oil men and by the Department. The equally enthusiastic statement by Ambassador Morrow was somewhat franker than the Department on this point. He said:

"There remains, of course, the determination of what rights the oil companies held on May 1, 1917, the date the Constitution became effective. While there may well be honest differences on this point, there is no reason why any such differences cannot be satisfactorily settled through due operations of the Mexican governmental departments and the Mexican courts."[94]

Press comment for the most part was as optimistic as the State Department and Morrow expressions. Indeed some drew from these official statements the logical—but probably premature—conclusion that the United States Government thereby formally accepted the Mexican law and renounced future rights of protest against its provisions.

"It may be assumed that henceforth the oil companies either accept the law, or, if they choose to fight it, fight with out diplomatic or moral support of the Government," wrote Mr. Walter Lippmann of the New York World, recently returned from Mexico City.[95]

This also was the opinion, expressed in similar form, of the Mexico City *El Universal*:

"The declaration of Ambassador Morrow may be judged as a formal recognition of Mexico's law to the extent that future oil companies will have no alternative except to abide thereby or by not abiding thereby do so at their own risk, remaining without hope of diplomatic assistance."[96]

But the settlement, unfortunately, is not so complete as the official statements implied and the press believed.

The United States Government desires a clarification of the meaning of the word "concession" as used in Mexican legislation and decrees. Though the Calles Administration has removed the 50 to 80 years duration of concessions, it is still necessary for companies to exchange titles for these concessions. It is not sufficient, in the view of Washington, that such confirmatory concessions be valid for the duration of the original title, as provided in the amended law. The State Department, when it is expedient to do so, will reaffirm its contention that the only acceptable exchange, if any, for a fee simple title acquired by an American prior to the Constitution of 1917, is a confirmatory title, rather than a confirmatory concession. It will insist that this distinction involves more than a legalistic quibble over the words "title" and "concession." The good faith of the present Mexican. Executive, in recognizing "confirmatory concessions" as giving in effect all rights of fee simple titles, will not be questioned. But future Mexican Governments may be less liberal in interpreting the legal rights of concession holders, the Department will point out.

A second dispute, which Ambassador Morrow and the Department are holding back for the moment, involves the allied question of the validity of original titles. Under American law a property title is deemed valid until disproved. The Mexican law reverses this procedure and places upon the foreign owner the burden of proving anew the validity of titles acquired before 1917 and not successfully questioned since that time. Mexico's motive in enacting legislation requiring such re-examination of all foreign oil titles arose from the casual manner in which Mr. Doheny and other Americans originally obtained certain lands. Some of

the American titles—how many is unknown—were fraudulently and illegally acquired under then existing laws. Mexico is now determined to weed out those faulty titles. The State Department, of course, has based its entire case on defence of legally acquired titles. Even the most anti-Mexican Administration in Washington in the future is not apt to permit itself to be pushed by oil interests into the indefensible position of protecting illegal American titles in a foreign country.

This will not prevent the United States Government, however, from being thrown directly into the dispute over the validity of titles, which is certain to develop under the present law. Fear of the consequences of this provision of the law is not limited to companies desiring to retain corrupt titles. Holders of titles acquired in good faith are also apprehensive. Their concern is shared by the Washington Government for two reasons. First, titles in Mexico, as in most countries which have gone through cycles of dictatorship, revolution, and disorder, are notoriously shaky. In many cases Federal and local governmental records have been destroyed. In other cases records have been incomplete or contradictory from the beginning and therefore inevitably involved and difficult to decide. An equitable title decision can be derived, in Washington's judgment, only by properly constituted courts.

This explains the United States' second objection. Under the amended law the Mexican Executive through the Ministry of Industry, Commerce, and Labour, is empowered to pass upon validity of titles in the wholesale re-proving process required by the law. Standard and some other companies charge that the Ministry under Senor Morones is hostile to their interests. As a radical labour leader, surrounded by anti-capitalistic officials, he will not give them a fair deal, they say. Altogether apart from the personality of the present Minister the companies agree that any system placing such essentially juridical powers in the hands of political officials is conducive to favouritism and graft, and therefore equally undesirable from the standpoint of the Nation itself and of foreign producers.

Without aligning itself with these views, the State Department is expected to insist on the abstract principle that the Mexican courts by organization and experience are the proper and customary institution for determining title validity, if the Mexican Government insists upon such reexamination.

For the moment, however, Washington deems it expedient to sidetrack such arguments, thus permitting and encouraging Mexico under the new conciliatory mood to continue along its own line of compromise without apparent foreign pressure. During the Morrow-Calles negotiations the United States Government assured itself that the prospective President of Mexico, General Obregon, was an actual if unseen party to the Calles regulatory decree. Immediately upon its publication, Senor Obregon made his anticipated announcement: "I have read carefully the new oil regulations. I am convinced that the arrangement will be of equal benefit to the peoples of Mexico and the United States, as it is satisfactory to both Governments."[97] So the American diplomats and oil operators think they can afford to wait.

Meanwhile they have gained major advantages. The time limit on confirmatory concessions has been extended to the length of the original titles. The forfeiture penalty of the original law, for non-compliance with the concession-application provision, affected foreign companies controlling 90 per cent of the petroleum-producing lands and 70 per cent of the output, Secretary of State Kellogg informed the Senate.[98] The companies were given another year in which to comply with the amended law. The controversy over the law both in its administrative and legal aspects is thus on new and more limited ground, and with a fresh period of grace.

The trend toward temporary *rapprochement* between the United States and Mexican Governments for the time being has thwarted British efforts to obtain a favoured position at the expense of American producers. During the Kellogg-Sheffield provocative tactics of 1926-27, the British tried to capitalize anti-Yankee sentiment in Mexico City.

These efforts failed for several reasons. Dutch-Shell was beginning to concentrate in the new fields of Venezuela. Venezuela lacked the Mexican restrictive legislation, invited British exploitation, and geographically was in a better position for serving world markets than were the Tampico fields. If British oil capital was to expand in South America, it could not at the same time challenge successfully the entrenched American position in Mexico. This applied with greater force in the case of British Controlled Oilfields, which was close to bankruptcy because British Imperial policy rather than business judgment had determined its investments and activities. Anglo-Persian was preparing to capture a monopoly concession on Colombian national lands.[99] Most British companies were coming to question whether the Mexican game was worth the price. Unwillingness of the Calles Government to treat with them on satisfactory terms confirmed their pessimistic attitude toward Mexico's petroleum future.

The British therefore tend to accept the opinion of those geologists who believe Mexican resources, which may be profitably exploited, are almost exhausted. The accuracy of this opinion, which is shared by some American producers, is difficult to determine. Many geologists think present Mexican fields will be practically exhausted, at a reasonable rate of production, within a relatively short time, say, a decade. But Mr. Doheny, whose judgment on Mexican oil in the past has been better than that of his competitors, points out that the interior of that country has hardly been scratched. Mexicans assert that the petroleum regions of the interior equal those which Mr. Doheny and Lord Cowdray found on the Tampico seaboard before Standard and Dutch-Shell bought the majority holdings of those two pioneers. Even if Mexican contentions are substantiated by future exploration, the problem of transporting oil to the coast will make such interior fields somewhat less attractive than the present wells.

"While it is quite true that there has been a decrease in production since the peak total of 193,000,000 barrels was reached in 1921, unimpeachable and undeniable figures supplied by operators and

verified by the Government inspectors prove that there is no actual foundation for the [pessimistic] opinion referred to, but that as a matter of fact the proven potential capacity of the existing oil wells was never so great as now, and that some other cause than a diminution of available supply or exhaustion of the fields is responsible," according to a statement of the *Mexican News Bureau*, Washington. "To those who do not understand the matter it should be explained at the outset that all Mexican oil wells are self-producing, no pumping being resorted to as in other fields. No attention would be paid to any well necessitating such a process. ... There have been 1793 new wells sunk to date since January 1920, with the immense total annual capacity, as proven by test, of 2,516,700,000 barrels. ... A recent summary of the amount of oil exported from Mexico between 1901, when the first shipments were made, and the end of the first six months of the present year, showed a total of 1,434,810,581 barrels, or over 1,000,000,000 barrels less than the total proven potential capacity of the new wells completed since 19201 This serves to demonstrate that the oil fields of Mexico may be depended upon to increase in their productive capacity for an indefinite period, while with no further additions to the number of new wells there can be produced and exported many times as much as the largest annual amount recorded."[100]

Nevertheless, in negotiating with Britons and Americans under the new conciliation tactics, the Calles Government has been aware of the reduced importance of Mexico in the petroleum world. Revival of the Russian industry, initial drilling in Mosul, new gushers in the United States Seminole, west Texas, and California fields, and particularly the emergence of Venezuela and Colombia within the last year as direct competitors of the Tampico fields, lessen the bargaining power of the Mexican Government in dealing with foreign interests.[101] The time is approaching, or has arrived, when foreign oil capital is more necessary to Mexico than Mexico is necessary to it.

Standard, Gulf and other American companies, of course, have to consider their present heavy investments there. Even though they shared

in full the pessimistic point of view regarding future supplies and governmental restrictions, the American companies would be obliged to make the best of a bad matter and continue operations.

This interdependence of American companies and the Mexican Government explains in part the failure of the British to obtain a favoured position and the ability of Ambassador Morrow to make a temporary oil agreement with President Calles.

Mexico's dependence on American oil producers for taxes, industrial development, and employment of native labour is only part of her dependence on American capital as a whole. Mexico's economic crisis, caused by reduced oil revenues, fall of the silver market, and attempted counter-revolution, coincided with increased financial demands. The moratorium on foreign debt service expired on December 31, 1927, leaving the Government with $59,000,000 to pay in interest and amortization in 1928.[102] To meet these obligations, 42 per cent of her estimated budget income would be required. This led President Calles in December to ask and receive from Congress extraordinary powers to deal with this problem. The situation was equally disconcerting to Mexico City and New York. The Mexican Government did not want to ruin its international credit, and the American bankers would lose if their debtor were forced toward bankruptcy. The bankers prepared to extend easier terms. In the interest of both parties a period of productive peace, based on Mexican-American co-operation, was essential. This thought was uppermost, perhaps, in the minds of the American banker-Ambassador and Senor Calles in their efforts to get the oil dispute temporarily out of the way. Moreover, new American capital is needed for reconstruction and industrialization of the country. Mexico can exist without American financial participation in the development of natural resources, but the process would be a very slow one.

Appreciation of the dependence of Mexico on American capital is buttressed by the dawning conviction of some Mexicans of the inevitable character of American economic expansion and imperialism.

They think the American empire is too big for Mexico to fight successfully. This attitude was expressed by *El Universal* of Mexico City, in October 1927, as follows:

"American imperialism is a fatal product of economic evolution. It is useless trying to persuade our northern neighbours not to be imperialistic; they cannot help being so, no matter how excellent their intentions. ... Let us study the natural laws [of economic imperialism], in the hope of finding some method by which, instead of blindly opposing them, we can mitigate their action and turn it to our advantage."

But this increasing financial dependence of Mexico upon the United States is accepted with regret. While both countries were rejoicing over the "final settlement" of the oil dispute as embodied in the Calles decree of March 27, 1928, the Mexico City *Excelsior* was lamenting that European capital, formerly so strong there, was now afraid to challenge the United States' policy of financial and political "domination." *Excelsior* concluded: "We find ourselves, then, at the mercy—Mexico the same as other continent Republics—of American capitalists, reigned over by bankers."[103]

Recognition by Ambassador Morrow and President Calles of the advantages which can accrue both to American capital and to the Mexican Government from a co-operation policy was chiefly responsible for the conciliatory attitude in both capitals in the spring of 1928. But, in weighing the present situation and the probabilities of continued co-operation between the two Governments in handling the oil question, one factor is usually overlooked in the United States.

Mexico has paid almost the entire price for the present temporary *rapprochement*. She has retreated from her revolutionary principles of 1917. Granting that President Calles and General Obregon, who is expected to follow him, believe such a "strategic retreat"—to use the phrase made famous by Lenin—is necessary for the final victory of the revolution, the Mexican masses may soon be of different mind. There is little, if any, similarity between the Russian revolution and Mexican

revolutions which preceded it, except the agrarian problems common to each. But just because the semi-socialistic Mexican Government has less immediate and direct control over the masses than has the Communist Moscow dictatorship, the former may be unable to force the Mexican workers and peons to accept the retreat tactics which the Russian dictators imposed with such difficulty. As the Mexican Government swings more and more to the Right to team with American capital, increased protests are anticipated from labour and agrarian organizations. If this radical movement does not succeed in dominating Mexican politics, presumably it at least will check somewhat the Calles-Obregon conservative policy.[104]

Protests of radical groups in Mexico against too complete compromise with American capital are apt to become acute over the land law issue. The Washington Government opposes the land law as confiscatory. The land and petroleum laws are of necessity so closely allied, any failure to reach a final settlement on the former will react unfavourably on the present partial and unstable settlement of the oil dispute.

The crux of American-Mexican relations now, as in the past, is Washington's unwillingness to make major compromises on this general property rights dispute of which oil is a part. The much-lauded Morrow policy represents an important change in method, but no change whatever in aim. It has involved sacrifice of none of the principles asserted so belligerently by Washington since the enactment of the revolutionary 1917 Constitution. The Morrow method has been successful temporarily because it permits Mexico to retreat without losing face. But if and when Mexicans stop retreating and begin again to defend nationalization principles of the 1917 Revolution, the conflict between Washington and Mexico City probably will be renewed. And in a more costly manner than in the past. For the handicap of belligerent Washington Administrations in the past has been the indifference of the American people toward troubles of the American oil men, and the positive opposition of a strong group in Congress to American intervention in the southern Republic. Mexican Governments shrewdly

have counted upon this attitude of the American people to balance the Rockefeller-Doheny-Mellon pressure in Washington. Pro-Mexican sentiment in this country is to be explained largely, however, by the feeling that Mexico has been the underdog and Washington usually the aggressor. Now, thanks to Ambassador Morrow and the extraordinary publicity which has attended his efforts, most Americans apparently are convinced that the United States Government has made large concessions, going more than half way to meet Mexico in the interests of peace and amity.

In this popular American misconception of the Morrow era as representing a change in policy, instead of a mere change in method, exists a danger for the future. If the Calles-Obregon regime does not continue its retreat, the Washington Government is in a position to say to the American people: "Mexico has betrayed our friendship. We have tried a conciliation policy, and it has been rejected. The only policy left for us, if we would protect legitimate American interests, is one of force." Believing that Washington and the oil men have made major sacrifices in the interests of peace, and not knowing that the compromise has been all by Mexico, the American people may be ready for the first time to support an intervention policy.

50. Anton Mohr, *The Oil War*, pp. 209-210. 1925.

51. Senate Foreign Relations Committee, Hearings 1913, *Revolutions in Mexico*, pp. 104, 462.

52. B.J. Hendrick, *The Life and Letters of Walter H. Page*, vol. I, p. 218. 1922.

53. Ibid., vol. 1, p. 206.

54. Ibid., vol. 1, p. 103.

55. David Lawrence, *The True Story of Woodrow Wilson*, p. 100. 1924.

56. Congressional Record, vol. 51, p. 4527.

57. 66th Congress, 2nd Session, Senate Documents vol. 9, pp. 255-256.

58. State Department, *Foreign Relations of the United States, 1913*, p. 820.

59. Ibid., p. 856.

60. State Department, *Foreign Relations of the United States, 1914*, p. 444.

61. Cf., Scott Nearing and Joseph Freeman, *Dollar Diplomacy*, pp. 100-111. 1925.

62. 66th Congress, 2nd Session, Senate Documents, vol. 9, p. 284.

63. *Annals of the American Academy of Political Science*, Supplement May 1917, "The Mexican Constitution of 1917."

64. 66th Congress, 2nd Session, Senate Documents, vol. 10, p. 3120.

65. Ibid., vol. 9, p. 289.

66. Federal Trade Commission, *supra*, p. 94.

67. Cf., Carlton Beals, *Mexico: An Interpretation*. 1923.

68. Federal Trade Commission, *supra*, pp. xx-xxi. Cf., 69th Congress, 2nd Session, Senate Document No. 210, for list of American oil companies in Mexico.

69. State Department, *Treaty Series, 1924*, Nos. 676, 678.

70. State Department, *Proceedings of the United States-Mexican Commission, Convened in Mexico City, May 14, 1923*.

71. Charles E. Hughes, *Foreign Relations*, p. 56. Republican National Committee, 1924.

72. Ibid., p. 58.

73. State Department, press release, June 12, 1925.

74. Ibid., April 11, 1926, texts of 10 notes.

75. Cf., Arturo M. Elias (Consul-General), *The Mexican People and the Church*, 1927, for official Mexican statement. Also, President Calles, *Mexico Before the World*, pp. 103-141; a collection of public documents and addresses. 1927. Statements of United States Roman Catholics are collected in the Congressional Record, vol. 68, pp. 1693 ff.

76. Cf., Henry L. Stimson, *American Policy in Nicaragua*; approved by President Coolidge as an official statement. 1927. For anti-United States narrative, Rafael de Nogales, *The Looting of*

Nicaragua, 1928. General references: 69th Congress, 2nd Session, Senate Hearings, *Foreign Loans*. 68th Congress, 2nd Session, Senate Hearings, *Foreign Loans*. Isaac Joslin Cox, *Nicaragua and the United States, 1909-1927*. 1927.

77. New York *Times*, Jan. 14, 1927.

78. Cf., New York *World*, Jan. 15, 1927, for critical comment. Also, Baltimore *Sun*, Jan. 12, 1927.

79. 69th Congress, 2nd Session, House Document No. 633, pp. 6-9.

80. New York *Times*, April 26, 1927.

81. Cf., New York *Nation*, Feb. 22, 1928, and following issues, for Sandino articles and interviews by Carlton Beals.

82. Ibid., Oct. 19, 1927.

83. New York *World*, April 4, 1928.

84. American Petroleum Institute, *Petroleum Facts and Figures*, pp, 19-23. 1928.

85. Commerce Department, *Commerce Year Book, 1926*, vol. 2, pp. 370-379.

86. New York *Wall Street Journal*, Dec. 12, 13, 16, 17, 1927.

87. Cf., Association of Producers of Petroleum in Mexico, *Amparo—The Texas Co. of Mexico S.A., August 1921*.

88. New York *Herald Tribune*, Dec. 11, 1927.

89. Cf., 70th Congress, 1st Session, Senate Hearings, *Investigation of Alleged Payments by the Mexican Government to United States Senators*. Ibid., Senate Report No. 52.

90. Translation by Mexican Embassy, Washington, from *Diario Oficial*, Jan. 10, 1928.

91. State Department, press release, Jan. 13, 1928.

92. Washington *United States Daily*, April 7, 1928.

93. Ibid., March 28, 1928.

94. New York *Times*, March 28, 1928.

95. New York *World*, March 28, 1928.

96. New York *Times*, March 30, 1928.

97. Ibid., March 30, 1928.

98. 69th Congress, 2nd Session, Senate Document No. 210, p. 4.

99. Cf., Chap. VII.

100. Press release, October 22, 1927.

101. Cf., Appendix A.

102. New York *Wall Street Journal*, Dec. 23, 29, 1927.

103. New York *Herald Tribune*, April 1, 1928.

104. Cf., Beals, *supra*, on Labor and Agrarian Movements. Calles, *supra*, pp. 8-34, 55-61, 68-69, 183. William English Walling, *The Mexican Question*, pp, 81-144. 1927.

CHAPTER FIVE
"*British [Government] Controlled Oilfields, Ltd*."

WASHINGTON looks with suspicion and hostility on British penetration in the Caribbean. In that region the United States claims a special sphere of influence.

"The Americans are not going to yield their old supremacy without a struggle, least of all in those Spanish American republics which they regard as their natural preserve," Mr. Sydney Brooks wrote in 1920, at the beginning of the American oil awakening. "The concessions which British subjects have acquired in Venezuela, Costa Rica, Colombia, Ecuador, and so on, are looked upon at Washington with peculiar jealousy. ... Moreover, in one of the greatest organizations that is fighting out the battle of oil, the British Government is itself the principle stockholder and an unavoidably official and national character is thus imparted to its operation."[105]

Control in the Monroe Doctrine area was described by Sir Edward Mackay Edgar's article in *Sperling's Journal*: "I should say that two-thirds of the improved fields of Central and South America are in British hands. In Guatemala, Honduras, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, and Ecuador, a decisive and really overwhelming majority of the petroleum concessions are held by British subjects. ... The Alves group [British Controlled Oilfields, Ltd.], whose holdings encircle practically two-thirds of the Caribbean Sea, is wholly British, working under arrangements which insure that perpetual control of its undertakings shall remain in British hands. No American citizen and no American group has acquired or ever could acquire any such position in Central America as that which enterprise and personality have secured for Mr. Alves. ... Unfortunately for them—and fortunately for us—their eyes have been opened too late."[106]

But perhaps neither an American nor a Briton should be trusted to judge this fight, which holds so much menace for future relations of the two Powers.

Let a Frenchman describe early British activities in the Caribbean, prompted allegedly "as a precaution in case war should break out between Britain and the United States; for, even with the help of the Japanese fleet, the British navy might not be able to seize the Panama Canal." M. Pierre l'Espagnol de la Tramerye, in a chapter on "An American Balkanism" in his *World Struggle for Oil*, in 1923 said:

"The Anglo-Persian Oil is no longer sufficient for Great Britain, which founded a new company in 1918, the 'British Controlled Oilfields,' specially commissioned to fight the Standard Oil. ... Like the Anglo-Persian, it is entirely in the hands of the British Government under the system of the Voting Trust. It seems that an immense tract of oil-bearing territory exists from Mexico to the Argentine, a continuation of that of the United States. ... Of these deposits the British Controlled Oilfields wishes to gain possession on behalf of the British Government, thus completing the work of the Royal Dutch-Shell in Venezuela and in the neighbourhood of the Panama Canal. ... Its concessions actually surround two-thirds of the Caribbean Sea: they are situated in the States of Guatemala, Honduras, Nicaragua, Costa Rica, Panama, British Guiana, Colombia, Venezuela, Peru, Ecuador, and the Island of Trinidad. The concessions of the British Controlled Oilfields are nearly always on the sea coast—or rather in close proximity to the sea—which is a considerable advantage. It has expressly chosen them, on both the Atlantic and the Pacific, as a precaution in case war should break out between Great Britain and the United States; for, even with the help of the Japanese fleet, the British navy might not be able to seize the Panama Canal. All its units must be in a position to replenish their stores of fuel without being obliged to make a long detour round the Magellan Straits. ... In order to obtain them [Costa Rican concessions], Great Britain did not hesitate to foment revolution in this little Republic. Unable to obtain anything from the established Government, it helped to

place in power the revolutionary President Tinoco, from whom it got all it wanted: more than 6,000 square miles granted to the British Controlled Oilfields. Unfortunately Tinoco has been overthrown: the regular Government, restored to power, hastened to annul these concessions. Great Britain, to compel it to ratify these concessions, stirred up a war between Costa Rica and Panama, while she sent the cruiser Cambrian to the coast of Costa Rica in order to increase the pressure. Events went against her. Costa Rican troops invaded Panama. A landing took place on February 28, 1921, on the Pacific Coast, south of the Dulce Gulf, the eastern shore of which is common to both countries, and another less important one on the Atlantic, towards Bocas del Toro. Panama lost the territory of Coto. Mr. Alves, chairman of the British Controlled Oilfields, set out in March 1921 for Costa Rica, to study the question at issue. But the United States stepped in; and judge White, as arbitrator, pronounced in favour of Costa Rica. On August 26, 1922, an American naval detachment assisted the Costa Rican forces to take definite possession of the contested territory, in spite of the indignant protests of the Government of Panama against the violent measures of which it was the victim. There is continual warfare among the little republics of Central America. The imbroglio of British and American affairs around the Gulf of Mexico and the Caribbean Sea (British Controlled Oilfields, Mexican Eagle, Royal Dutch-Shell, Mexican Petroleum, Standard Oil) makes this region the Balkans of the oil world. The British Controlled Oilfields, the board of which includes a British admiral and a member of Parliament, is the result of long investigations pursued by Lord Fisher on behalf of the Admiralty. The results of these studies are being methodically turned to account in order to insure to Great Britain the supremacy of the sea by means of the supremacy of oil."

The Costa Rican incident recounted by M. de la Tramerye grew out of British efforts as early as 1914 to obtain concessions in that Central American Republic. Immediately after its organization in 1918 to make Caribbean oil safe for the Union Jack, British Controlled Oilfields obtained a 7,000,000-acre concession from the revolutionary Tinoco

Government. General Tinoco seized power with British help, according to Americans. His oil grant to the British company conflicted with earlier American concessions. London recognized the Tinoco regime. Washington refused to do so. "The attitude of the United States encouraged a successful rebellion against Tinoco in 1919," according to Parker Thomas Moon. Dr. Moon adds: "Costa Rica is 'independent,' but her Government must respect the new Monroe Doctrine, the doctrine that the United States has a veto on concessions."[107] The new Costa Rican Ministry cancelled the British concession.

Washington bided its time until 1921, and then permitted Panama to push a frontier dispute against Costa Rica. As soon as the boundary war got under way, Washington intervened and an American arbitrator drew a frontier which satisfied the Costa Rican Government. The latter having revoked the British concessions, later gave a 9,000,000-acre concession to the American Doheny interests and another to the Sinclair company.

Downing Street, in the exchange of notes on the San Remo-Mosul controversy, defended its Near East exclusion policy in part on the ground that the United States was guilty of the same practice in influencing the Costa Rican and Haitian Governments to revoke legally acquired British concessions.[108] The State Department denied this charge, asserting it could not recognize the Tinoco Government because the latter had acquired office by unconstitutional means. Not these British protests, but Costa Rican dissatisfaction over Washington's refusal to accept the Pan-American Court's ruling in the Nicaraguan dispute, later jeopardized United States prestige there and the Doheny-Sinclair concessions.

M. de la Tramerye and Sir Edward Mackay Edgar, as it turned out, were premature in forecasting complete British victory in Latin America. Their descriptions of the situation, however, were valuable as revelations of British purpose and tactics.

Despite repeated London denials, British Controlled Oilfields has been controlled by trustees, some of whom were nominated by the British Government. But the oil of diplomacy and of commerce does not always mix. From the standpoint of naval strategy this company has been most successful, especially in acquiring lands in the Panama Canal region. As a commercial organization, it has failed—though this is of less importance to the British Government. At the latter's suggestion the company was organized in a unique way, stockholders renouncing control in favour of seven "Voting Trustees." Following incorporation of the concern in Canada by Mr. Alves, the control system was established by a "Trust" on January 20, 1920. Trustees representing the London Government directly were Mr. E.G. Pretyman and Sir Edward Mackay Edgar, whose boasts of British supremacy in the Caribbean are quoted above. The Trustees were empowered to appoint directors. Company shares were distributed throughout the Empire but carried on the books in the name of Messrs. Sperling, a bank of which Sir Edward is an official.

A revolt of these disfranchised stockholders led in 1925 to forced appointment of new directors. This board revealed that $30,000,000, two-thirds of the company's capital, had been lost under the system and policy of political management. The struggle between the non-voting shareholders and the British Government, represented by the Trustees, continued until it was carried into the courts in the winter of 1926-27. Belatedly the Trustees agreed to abolition of the Voting Trust and to financial reorganization. But in the process of forcing this reorganization certain details of British Government policy in the Western Hemisphere inadvertently had been shown to the world.

The report of the new board of directors, January 4, 1927, stated: "The business of the company can never be conducted on a sound basis until its board can be chosen, can be criticized, and can, if necessary, be discharged by the whole body of the shareholders whose capital is engaged in the company and until these matters are no longer subject to the judgment or to the caprice of the majority of a body of trustees of a

Trust which was created in January 1920 by Messrs. Sperling and Co., to whom the whole of the company's common stock (save 100 shares) had been issued in part satisfaction of the purchase price of properties sold by them to the company."[109]

Mr. E.A. Harney, LP., in addressing a protest meeting of stockholders was quoted by the London Times, January 27, 1927 as follows: "when their own company started it was the suggestion of the British Government that things should be arranged in such a way that neither the Standard Oil Company nor any foreign company should get the oil which it was hoped would come out of the property, and two nominees of the British Government were placed upon the Trust."

While stockholders were insisting on reorganization, the Voting Trustees issued on October 11, 1926, the following statement defending political control of the company on the ground that it served British Imperial interests:

"As was publicly stated at the inception of the company the dominant object for the creation of the Voting Trust was to secure the control of the company for all time by British subjects in order in times of need to be in a position to direct the output of the fields into channels best calculated to serve Imperial interests, and for this object, and this object alone, the Trustees accepted the Trust. Sir William Mercer, who held the office of Chief of the Crown Agents, obtained the sanction of the Colonial Office to his appointment, and Mr. Pretyman becoming a Voting Trustee at the request of Lord Long, who was the Cabinet minister at the head of the Petroleum Department. The Trustees were in no way responsible for the appointment of the original directors, but, in the pursuance of the trust imposed in them, they have from time to time reappointed boards of directors which, on the information available at the time, were in their opinion best competent to manage successfully the affairs of the company and control the oil supplies with the object set out above. From the latter point of view the Trustees have never regarded with satisfaction the agreement made by the present board with

the Standard Oil Company, as to which they were not consulted, and they are gratified to learn of its imminent termination."[110]

Heavy financial losses and failure to discover oil on some company tracts had led the directors to make temporary leases to Standard Oil of apparently undesirable portions of one Venezuelan concession. As shown in the foregoing Trustees's statement, even such a temporary connexion with an American company was held taboo by the British Government representatives and scheduled for discontinuance. One of its contracts with Standard was cancelled in 1926. It operates in Venezuela and other Latin American countries in part through Dutch-Shell. In Trinidad much of its land is worked by Anglo-Persian. Though the Alves organization under British Government influence succeeded in being first on the field and in acquiring more lands in Latin America than any other company, its actual production has never been large. Its output in 1927 was less than 2,500,000 barrels.[111]

Why British Government control in the case of the Alves company should have been so disastrous financially, in contrast to the commercial success of the British Government-owned Anglo-Persian Company, is not altogether clear. Americans believe that much of the Alves land was acquired and is retained, for strategic purposes, with the knowledge that oil is not present. In cases of actual oil lands, the company in Venezuela and elsewhere has been unfortunate in its engineers. Moreover British Controlled Oilfields' area of operations has been in highly competitive and unknown territories, whose governments have not been amenable to London control. So the business hazards have been much greater than in Persia, where the British Government took over a rich company operating a huge developed monopoly concession in territory which was a quasi British protectorate.

Though such considerations explain in part the financial success of Anglo-Persian and Dutch-Shell, compared with the commercial failure of British Controlled Oilfields, they do not explain all. Both of these other companies operate in the Caribbean successfully. Anglo-Persian

in some Latin American fields has made big money. In others it has followed the Alves example of spending large sums for what is apparently strategic territory of little actual petroleum value. Anglo-Persian profits from Persian wells and some Latin American pools are sufficient, however, to conceal "losses" incurred in political ventures.

Within 10 years after its purchase of Anglo-Persian control for $11,000,000, the British Government had profited to the extent of $200,000,000, according to Mr. Winston Churchill's estimate in his *The World Crisis*. Allowing for the Churchillian powers of exaggeration, the amount remains large. Profits of Anglo-Persian continue to rise despite the fall in petroleum prices. In 1926-27 its net profit was $23,000,000, compared with $21,500,000 in 1925-26, $17,500,000 in 1924-25, and about $12,500,000 in 1923-24 and 1922-23.[112] Ordinary dividends exclusive of stock bonuses have ranged from 10 to 20 per cent since 1920. In 1926-27 the dividend was reduced from 17½ per cent to 12½ per cent, but a 50 per cent stock bonus made the equivalent dividend 18¾ per cent. Royalty payments to the Persian Government increased from $2,315,000 in 1920-21 to $5,135,000 in 1926-27, being based upon company production and profits. The political—exploration activities of the company through subsidiaries in the Caribbean—South American region and elsewhere are shown by the company's balance sheet to be expanding rapidly. Though no details were given, the budget of expenditures submitted to the annual meeting for 1926-27 included an item of $123,945,000 as "purchase price of concession, shares in and advances to associated companies," an increase within the year of $14,545,000.

Dutch-Shell, which is not directly a Government company and therefore under less incentive to make political expenditures, pays even better than Anglo-Persian. Profits of the "Royal Dutch Company for the Netherlands Indies," the holding corporation, are indicated by dividends of 23 per cent in 1924 and 1925, and 23½ per cent in 1926.[113] These dividends were exclusive of profits of the Deterding operating companies. The Federal Trade Commission found that the cash and

stock dividends of the Royal Dutch subsidiaries, other than holding companies, averaged in the 1902-1921 period 42 per cent.[114] Shell Transport and Trading Company, the holding company having 40 per cent interest in the Dutch-Shell combine, from 1909 to 1921 paid an annual average dividend of 31 per cent. Profits of this company, exclusive of producing and distributing subsidiaries, were $24,000,000 in both 1924 and 1925, and $26,800,000 in 1926; dividends in those years rising from 22½ per cent to 25 per cent.[115] Dutch-Shell losses in the Russo-India sales battle of 1927-28 are discussed in Chapter Ten.

Activities of Dutch-Shell, Anglo-Persian and British Controlled Oilfields challenged commercial interests of Standard and other American companies and endangered the United States claim to special political interests in the Caribbean. Though the eyes of the Americans were opened late, to use the British phrase, the Yankees fought back. As a result, American holdings in the Caribbean region and southward are now much larger than the Edgars, de la Trameryes, and others, anticipated.[116]

American dominance was easy to achieve in countries over which the United States Government or its so-called "treaty officials" exercise wide authority. In the Dominican Republic, the Texas Company through its subsidiary Antillian Petroleum has acquired four concessions covering all of Azua province and parts of adjoining provinces. Drilling there began in March 1927.

The British have been more successful in Bolivia and Ecuador, though neither of those fields is important as yet. A London firm, Anglo-Ecuadorian, is the only company with commercial production in the latter country. It had 40 flowing wells in the fall of 1927. Production in that year doubled to 450,000 barrels. On the basis of an increase from 29,000, to 49,000 barrels a month at the close of 1927, the company proposed to increase its capital from $5,000,000 to $7,500,000. British interests in that year acquired a large block of stock of Inter-Continent

Petroleum Corporation, a mixed company holding about 8,000,000 acres in Ecuador, Mexico, Guatemala, British Guiana, and Venezuela.

Though Brazil in 1926 nationalized all mineral deposits in anticipation of important petroleum discoveries, exploration and drilling operations are still in an initial stage.

Chile also has passed restrictive legislation. The foreign company chiefly interested is Chilean Oilfields, an Australian organization, which has not yet found oil in commercial quantities. Standard and Dutch-Shell have made drilling applications, which would be rejected under a quasi-nationalization bill pending in 1928. Another bill to place a prohibitive tax on oil imports, to force American copper companies to use native coal, was side-tracked in 1928 when Washington unofficially protested. Chile has purchased national rights to the German "Bergin" patents for making oil by the coal liquefaction process.

Argentina in 1927 with an increase of 800,000 barrels produced a total of 8,700,000 barrels, displacing British India in tenth place in world output. India is holding down under the British conservation policy. Argentina produces almost a third more than Poland and Trinidad.

Foreign capital has been at a disadvantage in Argentina. The Government exploits the best fields and practically prohibits export. Nationalization of the industry throughout the Republic, State monopoly of oil transportation, and exclusive State exploration are provided in a bill passed by the Argentina Chamber of Deputies in 1927. Foreign companies predicted in 1928 the bill would be killed by the Senate. Despite restrictive legislation and decrees, privately owned fields in the ten year period 1917-26 increased annual production from 11,000 to 477,000 tons. In the same decade Government fields raised their output from 167,000 to 680,000 tons. British Railways and Anglo-Persian are the largest private producers; Standard (N.J.) and Dutch-Shell output is insignificant.

Rising Argentine nationalist opposition to Standard and other foreign companies is indicated by the following survey in *O'Shaughnessy's South American Oil Reports*, March 1928:

"Practically from the beginning of the year [1927] there has been a tremendous interest in the question of petroleum legislation, largely the result of propaganda of a violent and entirely misleading nature directed against the Standard Oil Company, S.A. Argentina, especially, and its operations in the country. This was stimulated primarily by the Fiscal Petroleum Department and secondarily by the radical press and political elements. ...

"The theme of all this propaganda was that the Standard Oil Company (backed by the United States Government) as part of its world program, was endeavouring to monopolize or control the supposedly tremendous oil resources of the Argentine, and that it was essential that legislation be enacted immediately depriving the provinces of the ownership of petroleum wells and vesting all title and control in the Federal Government (nationalization) and thus prevent such a situation. ...

"It may be said that for one month the discussions in Congress were practically a continuous tirade against the Standard Oil Company, with a great deal of attention devoted to the alleged imperialistic 'oil policy' of the United States Government. ...

"By the time Congress convenes for the 1928 Ordinary Sessions the National elections will have ended and it will be very difficult for the present Congress and Administration to enact a definite petroleum law (which could only be executed by the succeeding Administration) even though they should wish to do so. The new Executive Power comes into office in October 1928, after the termination of the Ordinary Sessions of Congress for that year. Under the most favourable conditions it is unlikely that the incoming Congress and Administration will enact a definite petroleum law prior to 1929." President-elect Irigoyen favours further oil nationalization.

Bolivia has been chosen by the British for a grandiose exploitation scheme under grants obtained by a London concern, Bolivia Concessions, Ltd.[117] This company is promoted by Sir Martin Conway, M.P., and others. The vast concession covers 50,000,000 acres, including 20,000,000 under option. The company's rights cover oil, mineral, timber, and agricultural concessions in the eastern part of the country. In 1928 the company appealed for English settlers to join a group of Tsarist Russian refugees in colonizing this territory. An added inducement of hidden Jesuit treasure lured the pioneers. A port has been built on the Paraguay River near the Brazilian border and 600 miles from the coast, and a railway and wireless station projected by the company. Apparently the tract is suitable for cultivation of rubber, coffee, cocoa, cotton, sugar, quinine, rice, and tobacco. But geologists are sceptical regarding ambitious estimates endowing this tract and the adjoining territory with "the greatest petroleum resources in the world."

Petroleum deposits have been found in a score of places between Yacuiba and San Cruz, Bolivia. Standard has small productive wells in the Yacuiba territory, near the British concession. Guggenheim and other United States mining and financial interests are a power in that country. Unfavourable inland location of the country and transportation obstacles, however, have retarded oil development. A pipe-line across the Andes would have to cross Chilean and Peruvian territory, raising political difficulties in addition to the heavy investment required. The longer outlet down the Paraguay River also might raise political questions, as that route touches other countries. But this transport solution will be the one attempted.

Peru is the most important oil country in South America, except Colombia and Venezuela. With an annual production of 9,800,000 barrels in 1927 it ranked ninth among the producing countries of the world. In 1926 it was eighth, but its output decreased 1,000,000 barrels while Colombian production rose 8,000,000, putting the latter in eighth position. There are three Peruvian fields on or near the coast, Zorritos, Lobitos, and Negritos. Less accessible are the Titicaca deposits in the

Andes. Standard (N.J.), through its subsidiary, International Petroleum, the largest producer in Colombia, holds the La Brea y Parinas concession of 400,000 acres in north-eastern Peru, and smaller tracts aggregating 850,000 acres more. The Rockefeller company is holding output to about 7,000,000 barrels a year on account of present world over-production. But many of its wells are closed in and production can be increased rapidly on demand. Part of Standard's acreage was obtained from British Controlled Oilfields, when that company's near-bankruptcy was discovered by its stockholders.

A British concern, Lobitos, produced in 1927 about 2,500,000 barrels. With a working capital of $3,000,000, Lobitos in the year 1926-27 earned $1,300,000 and paid 35 per cent dividend. It is building 10 new storage tanks, with capacity of more than 500,000 barrels at the company's port, La Libertad.

Dutch-Shell, like British Controlled Oilfields, went into Peru several years ago, but grew discouraged too soon. The Deterding combine let its largest concession option lapse through failure to exploit the tract. An American company, Phillips Petroleum, in 1927 obtained that concession on a Government royalty basis. The tract includes from 1,000,000 to 1,500,000 acres along the coast in Piura Department. Other American companies are exploring Government lands.

A British promoter, Mr. G.V. Holden, became very active in Lima in 1927, finally winning the friendship of President Leguia. He was promised a refinery concession and gasoline sale "monopoly" on a 12½ per cent Government royalty basis. At the end of 25 years the refinery would revert to the Government gratis. Annual revenue on present Peruvian consumption of 10,000,000 gallons amounts to somewhat less than $500,000. The Chamber of Deputies refused to ratify the Holden "monopoly" contract in October 1927, but reversed its decision in 1928.[118]

Apart from this apparent favouritism toward some British interests, American companies for the moment are fairly well satisfied with

conditions in Peru. They were able in January 1927 to get from the President an executive decree, which "clarified" the petroleum nationalization law in line with American demands. The decree extended the length of concessions to 40 years. Various legislative and administrative restrictions also were relaxed. There is some fear, however, that the Government may return with greater zeal to a policy of nationalization.

105. Tulsa *Oil and Gas Journal*, December 1920.

106. London *Sperling's Journal*, September 1919.

107. Thomas Parker Moon, *Imperialism and World Politics*, p. 429, 1926.

108. Notes of Aug. 9, 1920, Feb. 28, 1921.

109. London *Times*, Jan. 5, 1927.

110. Ibid_, Oct. 12, 1926.

111. New York *Wall Street Journal*, Dec. 7, 1927.

112. Report, Nov. 2, 1927.

113. London *Times*, June 6, 1927.

114. Federal Trade Commission, *supra*, p. xii.

115. London *Times*, June 11, 1927.

116. Cf., Tulsa *Oil and Gas Journal*, Dec. 29, 1927, and New York *O'Shaughnessy's South American Oil Reports*, April 1927–April 1928, for technical articles on Latin American oil industry.

117. Cf., New York *Times*, Jan. 13, 1928. Boston *Living Age*, April 1, 1927.

118. Commerce Department, *Foreign Trade Notes*, March 10, 1928.

CHAPTER SIX
Standard Arrives Late in Venezuela

VENEZUELA has suddenly emerged as one of the important oil fields of the world.[119] It ranked second to the United States in monthly production in November 1927. In that year it almost doubled its output, and with a total of 64,400,000 barrels edged Mexico out of third place. Now it is racing Russia. Hence the Dutch-Shell and Standard struggle is being carried on in that South American country with vigour and bitterness.

The importance of Venezuelan wells is enhanced by the favourable position of the country. It is close to the Panama Canal, on the short-cut route to the Far East markets, and 100 miles nearer than Tampico, Mexico, to New York and 800 miles nearer London. Venezuelan oil was put to a severe test in 1927 when forced to compete on the United States market with low-priced American oil resulting from over-production in the new fields of west Texas and the Seminole. The Venezuelan product was put down in New York at $1.10 a barrel, or 20 cents less than Texas crude.

Mr. Deterding's organization was first on the ground. British Controlled Oilfields followed. Standard (Ind.) arrived four years later in 1922. Then came the Gulf interests of Andrew Mellon, United States Secretary of the Treasury.[120] Despite this time handicap American companies are now passing the British in output.

Political conditions are similar to those of Mexico in the days of Diaz. General Juan Vicente Gomez, President since 1908, gives the country a dictator's reign in which the rights of labour are restricted and foreign capital is favoured for a consideration. The British drilled into the Gomez regime and grabbed the best oil lands before the Americans realized the importance of Venezuela, just as the Americans had done in the Mexico of Diaz. Like Diaz, however, Senor Gomez has found it

expedient to balance the monopolistic power of one foreign group by letting in a second group, in this case American.

Lawless methods of competition, running into violence, are charged against British and Americans.[121] Political graft has a part in obtaining and holding concessions. Much of the land is unsurveyed wilderness, hence disputed titles and bribery. The gushers of the La Rosa-Lagunillas district at Lake Maracaibo are in the state of Zulia, which is relatively inaccessible and far from the capital, Caracas. President Perez Soto of Zulia boasts of his alliance with foreign oil interests. Separation of Zulia from Venezuela is favoured by certain American companies fearing the fall of Gomez.

Petroleum and mineral rights are vested in the Federal Government. This is traditional, dating from colonial days when the Spanish Crown granted land titles but retained the mineral resources. Under the present law the landowner has no vested subsoil rights. Concessions granted by the Government are limited by the hydrocarbons law of 1925 to 40 years. Royalties, from which the Government received $4,000,000 in 1927, range from 7½ to 11¼ per cent. There is no corporation tax. Other oil taxes include 10 per cent on production at market value, and small taxes on export, tanker clearance, exploration, and exploitation.

After passing mining laws not entirely satisfactory to foreign capital, the Venezuelan Government in 1922 called in American and British oil men to write a law practically to suit themselves. With only slight changes this foreign draft was enacted and oil capital began to flow into the country as desired. Satisfactory arrangements were made regarding old concessions of foreigners, which had been adversely affected by a regulation of 1920. The 1922 law, rewritten without basic changes in 1925, is praised by the companies as a model for all other Latin American countries.

But foreign companies fear that Venezuela, either under Gomez or his successor, may follow the Mexican lead and take a heavier toll by taxes and restrictive legislation. The abortive student-military rebellions of

February and April 1928 increased this foreign fear of a future "radical" regime. Labour problems grow increasingly serious, though the predominantly Indian population has achieved no strong labour organization.

Transport difficulties are the chief immediate obstacle. The present producing area is the Lake Maracaibo basin, covering about 30,000 square miles in the north-western part of the country. Moving sand-bars at the lake outlet to the sea block passage of ocean tankers. Specially constructed lake tankers are required for import of material to the fields and export of crude. Pipe-lines to the coast and extensive lake-channel dredging operations are planned, but for several years the companies expect to depend upon the present method of transport. Lake tankers now building are expected to permit an increase in export, and therefore of production, to about 90,000,000 barrels in 1928. Limited transport necessitates restricting output in all fields of the basin, and caused complete closing of the La Paz-Concepcion wells during most of 1927. Potential production in 1927 was 250 per cent greater than transport capacity. This situation forced American and British companies in that year to enter a short-lived production curtailment agreement in the La Rosa and Lagunillas districts. The competitors are pushing exploration and initial drilling in the race which is extending over practically the entire northern half of the country.

Standard of New Jersey in 1928 obtained control of the Creole Syndicate and has option on or ownership of immense areas in the undeveloped provinces. Into this concern Standard put $8,000,000 of working capital.

Dutch-Shell acquired ownership in the Mene Grande field of the Maracaibo basin and began small scale production in 1917, through its subsidiary, Venezuelan Oil Concessions. Mene Grande produced 9,000,000 barrels in 1927.

In the period of 1918-20 British Controlled Oilfields, under tutelage of the London Government, bought up as much Venezuelan land as it

could. This included a large tract, still undeveloped, in the eastern Orinoco Delta region. Of more importance it acquired the Buchivacoa concession in the Maracaibo district, covering 15,000 square miles. Being essentially a political company without producing experience, British Controlled spent much money without being able to develop this extensive tract. It chose the safer method of permitting Standard to prove and develop the eastern part of the concession for it on a 12½ per cent royalty basis, under careful time and other restrictions. A better portion of the concession was leased or sold under restrictions to Dutch-Shell. The remaining western part of Buchivacoa was developed slowly and inefficiently by British Controlled. At this same time Anglo-Persian, Dutch-Shell, and Standard were taking up open lands, and Gulf was coming in on a large scale.

While Dutch-Shell dominated production in 1922, its share fell to 53 per cent in 1927. The two American companies took 46 per cent, with Standard leading Gulf. American development in that year was especially rapid. Dutch-Shell subsidiaries, Venezuelan Oil Concessions and Caribbean Petroleum, produced 2,000,000 barrels in November 1926, compared with Standard's 550,000 barrels. A year later when Dutch-Shell ran 3,000,000 barrels, Standard had risen to 2,000,000 and Gulf to 1,500,000 barrels a month.

These three largest producers are restricting expenditures in their Mexican fields and borrowing additional capital for Venezuelan expansion. The Standard subsidiary, Pan-American Petroleum and Transport Company, one of the largest Mexican producers and parent company of Lago Oil and Transport through which Standard operates in Venezuela, borrowed $7,000,000 late in 1927 for use in Maracaibo. Gulf is building tankers, wharves, and concentrating capital for new drilling. Atlantic Refining in the same year acquired half interest in the Andes Petroleum tract of 4,000000 acres. California Petroleum and Union Oil of California contracted late in 1927 to spend $7,000,000 within six years in developing 1,500,000 acres on the Pantepec Oil tract.

Anglo-Persian plans extensive developments on its large tract in the State of Falcon, near the Caribbean, where light oil is flowing.

Profits mount despite transport obstacles. Dutch-Shell's subsidiary, Venezuelan Oil Concessions, in 1927 paid a 55Y2 per cent dividend, besides a 15 per cent dividend to its holding company. It earned $3,400,000 on $10,000,000 working capital. General Asphalt, a British Trinidad concern selling its Venezuelan output to Dutch-Shell, in the year 1926-27 earned $2,000,000 on a working capital of $6,500,000. Trinidad Leaseholds paid a 27½ per cent dividend, besides providing capital for British expansion both in Trinidad and Venezuela. Apex [Trinidad] Oilfields paid an 80 per cent dividend in 1926-27. Standard's subsidiary, Lago,[122] earned in the year 1927 nearly $8,000,000 on a working capital of $3,500,000. Shares in some of these British and American operating companies increased in value about 600 per cent from 1924 to 1927.

American success in the production and profits race does not mean, however, that British companies have been driven from their dominant position. Most of the acreage of proven lands is still owned by Dutch-Shell and British Controlled Oilfields. British policy requires that much of this land remain undeveloped until present operating fields are exhausted. Even in some producing fields, the British restrict production more than the transport limitations require. They expect American companies to be as prodigal and short-sighted in Venezuela as in the United States. Under provisions of the petroleum law by which half of land originally explored by a concessionaire must revert to the State, Americans may get some of the present British land if they are on better terms than their competitors with the Government.

Fearing a radical Government may come into power when the dictator Gomez dies, British and American companies hesitate to invest capital in refineries there. Dutch-Shell, British Controlled, and Standard have only very small "topping" plants in that country. Sir Henri chose the neighbouring Dutch West Indies. His refinery at Willemstadt, Curacoa,

handles most of his company's Venezuelan production. Dutch-Shell in 1928 completed another refinery at Oranjestadt, Aruba, which will also treat products of its Mexican Eagle subsidiary. Standard has a terminal at St. Nicolas Bay, Aruba, where its Venezuelan oil is transferred from Maracaibo barges to sea tankers.

Standard is manoeuvring for a privileged position with the Caracas Government in connexion with the refinery issue. The Government resents the Deterding policy of refining crude products outside the country, thus enriching the Dutch West Indies at the expense of Venezuela. A 30 per cent surtax is levied on re-imports for domestic consumption from the Indies. Standard must build a refinery somewhere soon. The Government is anxious that this $10,000,000 to $20,000,000 investment be retained in Venezuela. Unless Standard can make a satisfactory deal with President Gomez, which will aid it in future conflict with Dutch-Shell over concessions and titles, the Rockefeller company intends to erect its large refinery on the Dutch island of Aruba, near its present terminal. Minister of Interior Arcaya in a memorial to Congress in 1927 indicated the Government will discriminate in favour of companies maintaining terminals and refineries within the country. On this basis Standard hopes to dominate Venezuela in the future as Dutch-Shell has in the past.

119. Cf., Tulsa *Oil and Gas Journal*, Dec. 29, 1927, pp. 49. 113, 274. Commerce Department, *Commerce Reports*, Dec. 5, 19, 1927, April 9, 1928. *Petroleum Facts and Figures; supra*, pp. 33-35. Unless otherwise credited, statistics in this chapter are from Commerce Department publications, including *Commerce Reports* and *Foreign Trade Notes*, April 1927-April 1928.

120. Cf., New York *Wall Street Journal*, Jan. 6, 1928, for Gulf Oil Company organization.

121. Cf., London *Contemporary Review*, December 1927. New York *Foreign Affairs*, October 1927. New York *Nation*, April 25, 1923, article by Mauritz A. Hallgren.

122. New York *Wall Street Journal*, Nov. 15, 1927, April 18, 1928.

CHAPTER SEVEN
Britain Menaces the Panama Canal

COLOMBIA probably will be the scene of the next international oil explosion. Grave international consequences are threatened by efforts of Anglo-Persian, a British Government company, to get a concession with canal rights flanking the Panaman defences of the United States.

All the elements of danger are there: alleged British Government defiance of the "Monroe Doctrine Corollary," conflict between Standard and British companies, Nature blocking petroleum exploitation, primitive tribes suspicious of alien invasion, labour trouble, "Mexicanized" laws and regulations, disputed land and subsoil titles, foreign financial penetration and diplomatic intervention. On top of this explosive well sits Standard, intending by the grace of the State Department to remain there.

The United States looks to Colombia to take Mexico's place as the source of American petroleum reserves. Following the report of the Coolidge Conservation Commission on the coming shortage in the United States, the interest of Washington and New York in the Republic joining the Panama Canal has rapidly increased. British initial success in getting neighbouring Venezuelan fields intensifies the American drive on Colombia.

No one knows the extent of Colombia's petroleum resources. Apparently they stretch hundreds of miles back through tropical jungle to the Andes. But there is no natural outlet. The Magdalena River, running through the oil country, is too shallow even at its mouth for sea-going tankers. This obstacle for several years retarded subsoil development. Then Standard (N.J.) rushed in where only giant capital can follow.

Roberto De Mares, a French engineer, later naturalized, obtained in 1905 a 50-year concession in the heart of the Carare country. The tract lacked

definite boundaries. Standard in 1916 purchased his rights. "The concession was supposed to embrace 3,000,000 acres," according to Standard's publication, *The Lamp*, August 1926: "The fact that the area when actually surveyed, some years later, only contained approximately 1,333,000 acres indicates the state of knowledge as to its size and content. It is safe to say that no accurate surveys of this area ... had previously been possible. ... Roads into the interior and camps were made by literally chopping them out of the tangled forest."

Standard operated through its subsidiaries, Tropical Oil and Andian National Corporation. Tropical started explorations at once. But annual production in the period of 1922-25 was held to about 500,000 barrels. In the latter year a young engineer, Mr. M.M. Stuckey, began for Andian the task of laying 360 miles of pipe-line through the jungle to Mamonal on the coast. In 11 months this feat was accomplished. With eight pumping stations in operation, the line carried 30,000 barrels of crude every 24 hours. In August 1927 a "loop" was completed and daily capacity increased to 50,000 barrels. The company built refineries, factories, harbours, boats, roads, railways, and cities. Within five years Standard had invested $60,000,000. When the pipe-line was completed in 1926 production multiplied 15-fold to 6,500,000 barrels. Production for 1927 was 15,000,000 barrels.[123] Tropical early in 1928 had a larger daily output than any other one operating company in South America.

To construct the necessary pipe-line, Standard had acquired in 1923 a special concession from the Government. The company spent the large sum involved in construction only after assuring itself that the Bogota Government would pursue in the future a favourable legislative and administrative policy.

"There could have been no utilization of one of Colombia's greatest resources upon such a scale, if its potentialities had not been initially recognized by the Colombian Government and its development encouraged," said *The Lamp* in August 1926: "Faith in the integrity of Colombian legislative and judicial enactment was the basis of the huge

investments involved, and the observances of the agreements affecting alike the rights of the corporations and the Government and people of Colombia was necessary to the culmination of both plans [wells and pipe-lines]. ... Contributory to this development with its accompanying constructions of new railroads and highways will be the opening up to usefulness of an area as large as many European principalities and much more bounteous in response to human effort."

Other companies, American and British, have gone into the country. But lack of transport facilities prevents commercial production outside of Standard's De Mares field.[124] Among interested American corporations are Gulf (Mellon), Transcontinental, Texas, Magdalena Syndicate, Colombia Syndicate, Leonard, Bogota Syndicate, and Standard of California. The latter's holdings are in addition to the Standard of New Jersey Tropical concession.

The chief conflict between American and British companies centres in and around the Barco concession area, far back in the interior against the Venezuelan frontier. General Virgilio Barco at the turn of this century happened to command Conservative troops which defeated the rebel army in Colombia's civil war. He sought reward. In 1905 he received it in the form of 1,250,000 acres of jungle land. The General lacked capital to develop his domain. In 1916 he sold it to an American-British syndicate. The Americans held majority interest. Dutch-Shell was indirectly represented. But this syndicate could not solve the transport problem. There were two possible outlets, both expensive. One lay over the Andes; the other across the Venezuelan frontier to Lake Maracaibo and the sea. The first was rejected by engineers as too difficult and costly. The alternative route was blocked by a Colombian-Venezuelan boundary dispute. When this controversy was settled the syndicate was unable to make satisfactory pipe-line arrangements with the Caracas Government.

Then the issue of titles arose to plague the syndicate. Colombian titles are described by petroleum lawyers as "the most involved titles of any

oil country in the world." The Supreme Court decided the syndicate's titles were invalid. Too many other persons, native and foreign, were interested in the Barco region.

As a result of these complications in 1926 Mr. Henry L. Doherty, chief American holder in the syndicate, arranged for the Gulf interests to obtain control through the Colombian Petroleum Corporation. Gulf has 75 per cent interest in this new company. The Caribbean Syndicate, with British and American-Doherty capital, retains 25 per cent.

Under Mellon-Gulf management the old barriers raised by the Colombian and Venezuelan Governments suddenly seemed to disappear. Mr. Doherty had tried for years to make headway with the Caracas Government without success. Within less than two months after the family of the United States Secretary of the Treasury acquired control of the Barco fields, Venezuela agreed to permit a pipe-line across its territory. Now there are intimations that the Colombian Supreme Court may reverse itself, making the concession titles valid when expediency permits.

Out of this involved situation Dutch-Shell emerges. The Deterding trust is connected with Caribbean Syndicate, holding minority interest in the Barco tract. Through Equatorial Oil, Dutch-Shell is getting another foothold in that region. Other British companies there include Lobitos and Coastal Oilfields.

But the most active is the British Government company, Anglo-Persian. An Anglo-Persian exploration party recently marched with a miniature army of mercenaries into the district of an hostile Indian tribe. After a battle the British retreated. Whether they got the geological data they sought is not known. But, it is reported, in their retreat they spread the news that they were American oil men. Since then it is not safe for a Yankee to venture within that tribe's territory. Such amenities of competition, however, are not a British monopoly. Dutch-Shell and Anglo-Persian men have worse things to say about the Americans and the Washington Government. Lord Cowdray of Mexican fame was

prevented by the State Department from getting a Colombia concession, according to the British.

"The British have also claimed that not long ago after a corporation of British capitalists had spent several millions on property in Colombia, the United States Government intervened and compelled the abrogation of the concessions on the ground that it was contrary to the Monroe Doctrine," Dr. John Ise recorded in 1926.[125]

But that incident is now overshadowed by a similar controversy, which is apt to influence Anglo-American relations in that country for many years.

Henry Irving Frederick Yates landed in Colombia early in 1927. He began at once to make history. This gentleman is a Briton by nationality, a colonel by title, an agent of the British Government's Anglo-Persian Oil Company by vocation. He arrived with a diplomatic passport, and the prestige and immunity which that gives. His way had been prepared by the British Legation at Bogota. He negotiated with Colombian officials. The daring Colonel proposed that the Colombian Government grant to the British Government company a 50-year monopoly concession for the vast area of national lands adjoining Panama and dominating the Canal approaches.[126] Minister of Industry Montalvo, the President, and Cabinet agreed. But certain Americans, whose business it is to know what foreign agents do in the Panama Canal region, promptly learned of the secret agreement.

What was the United States Government to do? Ordinarily its formal protest under the Monroe Doctrine would be quick and sharp. But this situation was not so simple. In the process of protecting that same Monroe Doctrine and its "Coolidge Corollary," the United States at that time was threatening Mexico, allegedly violating Panama's sovereignty with a military treaty rejected by the National Assembly, and "pacifying" Nicaragua with battleships and marines.[127] Washington's exercise of these "duties" had been "misunderstood" throughout Latin America. Anti-Yankee sentiment was running high, especially in the

South American Republic next to the Panama Canal. President Coolidge had justified his Nicaraguan intervention by a declaration of "special interests." Colombians were asking: "Will our country be next?" Colombian leaders were sending protests to President Mendez, warning against American financial and economic penetration as the first step in the invasion of their country's sovereignty.[128] Clearly it was no time for the State Department to protest to Colombia, even under the Monroe Doctrine.

Open opposition to the British Government's scheme to acquire territory flanking the Panama Canal was left, therefore, to certain Colombians whose own interests were also jeopardized. They protested on the ground that the Colombian Constitution and laws prohibited a foreign government from acquiring, directly or indirectly, such rights.

Popular sentiment soon forced the Bogota Government, led by the British Colonel, to a strategic retreat. The Colonel belatedly chose a line of action which such a strategist might have been expected to hit upon at the beginning of his campaign. He decided he was not an agent of the British Government company after all. He became plain Henry Irving Frederick Yates. He agreed that this was no sort of concession to be given to a foreign government. But that it should be given to Mr. Yates as an individual obviously was an entirely different matter. The Bogota Government was quick to discern the reason of this logic. It thought, however, that others might be less logical. In order to meet any possible objections it reduced the concession area to 6,000,000 acres—along the Panaman border.

But the objections continued. The strategist decided to leave the country. He departed as plain Mr. Yates, but allegedly with a diplomatic passport and with his records and luggage under immunity and seal of the British Government. The British Minister continues negotiations for the concession.

Colombian opposition to the proposed Yates-Montalvo concession is led by Dr. Laureno Gomez, former Minister of Public Works. "*The reserve*

of Uraba, which Law 72 established for the Republic of Colombia and incorporated in its patrimony, becomes [under the contract] a reserve of the British Government or of its oil operators," according to an "exposé" by Dr. Gomez in the Bogota El Tiempo, October 18, 1927: "There is something offensive to Colombian good sense in the manner in which Yates wanted to get the concession for the new canal."

The text of the amended contract is long and involved, many of the major points being obscured in technicalities. Extracts given below are from the English text appearing in *O'Shaughnessy's South American Oil Reports*, December 1927, which officials consider reliable. The Opposition argument is inserted in parentheses after clauses of the contract:

"Clause 1. The Government, exercising the authority vested in it by Article 4, paragraph B, of Law 72 of 1925, undertakes the official exploitation of the national petroleum reserves, and for such purpose it charges exclusively the Administrator [i.e., Henry Irving Frederick Yates] with the complete geological examination, exploration and exploitation of the reserved zone comprised within the following boundaries: ..." [Author's summary: On the north the entire Colombian-Panama frontier, and the shore of the Gulf of Uraba and Caribbean to Punta Arboletes; thence south to the headwaters of the Rio Sinu; west to the Rio Atrato; south along the Rio Atrato to the Rio Bojaya, and south-west to the Pacific; thence northward up the Pacific coast to Panama.]

(Gomez's criticism: "It was proposed to sustain in Law 72 of 1925, which prohibits the Government from 'celebrating any contract for the exploitation of hydrocarbons' in the Uraba region, that the Government should not contract within these same limits of prohibition, an Immeasurable concession.")

"Clause 2. The Administrator obligates himself to represent the Government in all the transactions which it may be necessary to make for the development of the present contract. ..."

(Gomez's criticism: "In this, which is essentially a concession contract, the absurdity is solemnized in that the one representing the side opposite or opposed to the Government may be at the same time the representative of the Government.")

"Clause 6. The capital invested in the expenses necessary for the installations and operations comprised in this contract shall be furnished by the Administrator, and shall be amortized in the manner stipulated in the seventh clause. ...

"Clause 7. The Government shall retain for itself 20 per cent of the gross products which the Administrator may extract from the deposits or pools. It shall give the Administrator another 20 per cent of such products in payment for his services of management and administration, and it sets aside the remaining 60 per cent for the expenses which may be incurred by the operation of the enterprise and the amortization of the capital invested therein. The Administrator may freely invest the last mentioned 60 units in the expenses caused by the operation of the enterprise and by the amortization of the capital. In case the Administrator succeeds in securing the normal operation of the enterprise and the corresponding amortization of the capital with less than the 60 units to which this clause refers, he may, for himself and as a greater remuneration, retain the balance of such 60 units which may remain. ..." [Author's summary: If gross production exceeds 1,000,000 barrels monthly, the Government's share rises gradually to 25 per cent.]

(Gomez's criticism: "This clause does nothing except to annul and to make ridiculous the existing law in order to favor Colonel Yates. The 20 per cent of participation to the Government is established as a minimum in Law 120. This contract only seeks to reduce that participation of the Government. According to the law cited, in addition to the 20 per cent, any contractor in that region must pay the ordinary imposts. These are forgiven Yates. He will not pay duty in the custom house. It is known that the Tropical [Standard Oil] has paid into the public treasury a sum in excess of $2,500,000 on this account. Yates

will not pay either the territorial tax of 10 cents per hectare, which, on the 2,500.000 hectares for 50 years, amounts to $12,500,000. He will be relieved from paying in the same way the territorial impost of two pesos per hectare in the zones that surround the wells and along the pipe-lines. That amount cannot be calculated in advance, but it can be very large. And the petroleum utilized in the exploration and exploitation, which also represents a considerable sum since it is known that the Tropical has occasionally utilized in these necessities up to 50 per cent, is for him also excluded. The 20 per cent of the Government, then, stands considerably reduced.")

"Clause 8. ... Whenever the monthly production of petroleum reaches 1,000,000 barrels, the Administrator shall establish a refinery in Colombia, in order to refine therein, at least, the crude petroleum sufficient to satisfy the gasoline requirements of the country. The Administrator may not sell, for internal consumption, in the places of exploitation or in his refinery, the crude petroleum and the refined products thereof, at prices exceeding those at which this product may be had in London or New York, at the option of the Government. ...

"Clause 13. ... Whenever, for the purposes of the official exploitation to which this contract refers, it is necessary to establish telephonic, telegraphic or radio-telegraphic communications, or to construct railways or other means of communication of analogous or of greater importance, they may be constructed by virtue of a separate contract, the cost thereof to be charged by the Administrator to the 60 per cent treated in the seventh clause hereof. The Administrator shall also have the right to use a zone 60 metres in width on the lands belonging to the Nation, as a right of way for the petroleum pipe-lines, casing and means of transportation, and to occupy the surface thereof which may be necessary for the construction; and he may without cost, and exclusively, in that which may be necessary for the explorations and exploitations, employ the hydraulic and electric power and the construction and the combustible materials to be found on the

nationally-owned lands situated within the bounds specified in the first clause of this contract. ..."

(Gomez's criticism: "This clause is of exceptional gravity. The difference attracts attention as between that established when they treat of constructing pipe-lines, ports and docks which require authorization on the part of the Government and 'the construction of telephones, telegraphs, railroads, or other similar ways of transportation of major importance' in which it is not established that authorization is necessary. The fact of enumerating them separately implies that this authorization is not previously necessary because it is considered to be conceded by the contract itself. With regard to these works it says 'that they will be able to be done by separate contract.' Here Clause 2 commences to function. The contractor [Yates] 'representative of the Government for all the operations which should be carried out in the development of this contract,' will be able to make the separate contract in the name of the Government with the entity that may suit him, for the construction of railroads or the opening of the inter-oceanic canal. And he will be able to do it behind the back and without consent of the Government, for such a deduction is reached from the literal tenor of Clauses 13 and 2. There is something offensive to Colombian good sense in the manner in which Yates wanted to get the concession for the new canal. The contractor [Yates] 'is enabled to contract separately for the construction of the canal,' without the necessity of a permit and without advice to the Government.")

"Clause 15. ... The Administrator ... submits to the laws and jurisdiction of the tribunals of Colombia, as provided in Article 42 of the fiscal code, which reads: 'Contracts made in Colombia with foreign persons are subject to Colombian law and to the jurisdiction of the national tribunals. In all contracts of this nature, it must be set forth that the foreigner renounces the right of making diplomatic claims in that which pertains to the duties and rights arising from the contract, saving the case of a denial of justice.'...

"Clause 16. If, for the execution of this contract, it should be necessary for the Administrator to organize any corporation or corporations, company or companies, he may do so, always provided that they be of Colombian nationality and domicile, and that no interest whatsoever be held therein by any government other than the Government of the Republic of Colombia. The Administrator shall present to the Government, for its approval, the articles of incorporation and the instruments of amendment of such companies, and the Government give them or deny them approval, or necessary corrections, within a term of 60 days. The Administrator may not transfer the rights deriving from this contract to foreign governments or entities depending therefrom, nor may he admit them as partners, stockholders or co-tenants, under penalty of the forfeiture of this contract *ipso facto*. ..."

(Gomez's criticism: "What is meant by this prohibition when it is known that Colonel Yates is the agent of the Anglo-Persian Oil Company, an official concern controlled by the British Government which names directly its functionaries and administrators? As to the prohibition against the transfer of shares without the consent of the Government, with regard to which the Honourable Minister [Montalvo] attaches so much glory, it is nothing more than supreme simplicity and an utter failure to recognize the rules and universal methods under which great companies are managed. Perhaps the Honourable Minister is ignorant of the current and daily use of the institution known as a 'Voting Trust,' by means of which the control of any company is changed without the necessity of transferring shares and which is done in a manner admitted and accepted in the commercial world.")

"Clause 17. The present contract shall endure for a term of 50 years to be computed from the date of its signature." (Gomez's criticism: "No one, whether he be a national or a foreigner, can, according to our laws, obtain a petroleum contract for more than 20 years.")

"Clause 18. The obligations of the Administrator shall remain in suspense should any fortuitous event or case of *force majeure* arise.

Such suspension shall endure all such time as the impediment lasts and three months thereafter. ...” [Author’s note: This would cover a revolution, or occupation of the territory by the United States in some possible Panama Canal defence contingency. Former Secretary of State Robert Lansing used this *force majeure* argument in defending the Sinclair Oil Company case when the Russian Government cancelled the Saghalin concession on grounds of non-exploitation. Mr. Lansing argued that Japanese military occupation of the territory prevented Sinclair from complying with the contract terms.]

“Clause 22. During the life of this contract the Government shall not enter into any other contract with any person other than the Administrator, for the exploration and exploitation of deposits or pools of hydrocarbons in the zone to which Clause 1 refers. ...

“Clause 24. The Government may at any time, with the approval of Congress, directly undertake the exploitation placed in charge of the Administrator by this contract, paying the latter or whomsoever may represent his interests: a. The capital,—with legal interest,—which can be proved to have been invested for the account of the Government by reason of this contract, and which have not been covered by the surplus treated in Clause 7, after deducting the expenses of administration and operation of the enterprise in accordance with the terms of this contract. ...”

(Gomez’s criticism: “We now arrive at Clause 24, vertex, crown and climax of the conflicts between laws and the absurdities of this contract. The Government, says the clause, will be enabled to take over the concession at any time whatever, but it will have to pay first the capital invested and not amortized—with that illusory and arbitrary amortization which was previously spoken of—and then the indemnity for unearned possible profits fixed by arbiters. By indicating impossible conditions they have managed to annul the faculty of the Government for recovering the concession or of declaring its cancellation.”)

The Bogota Government's act in negotiating the Yates-Montalvo concession and attempt to put the contract into effect over the protest of Congress is tremendously significant. Perhaps no more daring gesture against the United States' assumed authority over the Caribbean has ever been made by a South American government. What is behind this, and where will it lead? That is what Washington is wondering.

Is this Colombia's revenge for the alleged theft of her Panaman province by the United States in 1903? Washington knows that wound has not healed, despite American payment of the monetary claim. But Washington has not supposed that the Bogota Government seeks retaliation, if such is the case. Senator William E. Borah, now chairman of the Foreign Relations Committee, in his unsuccessful opposition to the $25,000,000 payment treaty,[129] characterized that settlement as an effort at "purchasing the friendship of Colombia." In his Senate speech of April 14, 1921, Mr. Borah pointed out:

"Colombia, as we all know, has always assumed to treat any such suggestion as an insult. ... For 17 years this controversy has been going on. It was initiated in the claim upon the part of Colombia that the United States Government had violated international law, that its President usurping power had oppressed a helpless people or a weaker people, and that we had aided and abetted in the tearing asunder of the Colombian Republic." The Senator did not quote the famous explanations made in 1911 by Mr. Roosevelt, which are so frequently repeated in Bogota—"I took the Canal Zone and let the Congress debate, and, while the debate goes on, the Canal does also. ... I was prepared, if necessary, to submit to Congress a recommendation that we should proceed with the work in spite of Colombia's opposition."[130] It was freely charged that oil interests were partly responsible for the Harding Administration putting through the payment treaty.[131]

Perhaps the Colombian Government's share in formulating the Yates contract can be understood, but what about the British Government? This is not a question which Washington officials discuss before the

public. Assuming that some responsible officials in London see the international menace of their Government's ownership of Anglo-Persian, perhaps they were not originally aware of that company's clumsy and provocative acts in Colombia. If that is the explanation, why does the British Legation in Bogota continue its efforts to get the concession in Mr. Yates's name? Admitting—what no one believes—that the British Government and Anglo-Persian have no further stake in the concession, what gain to Mr. Yates or any British citizen can compensate for the cost the London Government must pay in international distrust? These are some of Washington's unanswered questions.

These questions are barbed by reports of some American oil men to Washington that their survey showed no petroleum in the concession area—which may or may not prove true. They believe the concession unimportant to any British company—if oil is the only motive.

The American judgment that there is little or no oil in the proposed British concession area south of the Panaman border coincides with the American judgment that there is no gold in the British "gold" concession between the Colombian border and the Panama Canal. The Panama Corporation, a British syndicate promoted by the Earl of Cavan and Sir Alfred Mond, in 1925 obtained from the Panaman Government a 10-year monopoly gold concession.[132] Mr. Richard O. Marsh, explorer and discoverer of the "white Indians," filed charges with the State Department against Great Britain. Mr. Marsh alleged that the British Government through this concession obtained important naval bases in Panama, the right to police territory near the Canal and exclusive rights to the potential Panaman rubber desired by Americans to block British world rubber monopoly.[133] Anti-British sentiment was revived in the United States as a result of these charges and sensational press stories.

The Senate passed a Borah resolution "directing the Secretary of War to advise the Senate of all facts and circumstances relative to concessions secured by the British Government in the Republic of Panama."[134]

Investigation failed to substantiate the extreme charges. The concession covers 1,150 square miles in Veraguas province, the El Remance mines in that province and the Darien tract of 3,400 square miles in south Panama. The corporation has exclusive rights for 10 years to prospect for gold, and thereafter to work its mines as perpetual owner. All mines within the area to which it establishes claim and actually operates are tax-exempt. The corporation has use of national communications and waterways. The Panaman Government receives a two per cent royalty of gross receipts from mines after one year of operation. The area covers harbours but no major ports. Concession lands are in no case closer to the Canal than 100 miles. Though the military guard is paid by the corporation it is "appointed" by the Government. There are other Panaman lands as well adapted to rubber cultivation. The British Government has no apparent holding in the company.

There remain, however, several questions concerning this concession which trouble some Washington officials. First, there is believed to be not sufficient gold in that region to explain under ordinary circumstances the organization of a $10,000,000 corporation. Secondly, the concession promoters are men who are, or have been, British Government officials. Sir Alfred Mond, former Cabinet Minister, is head of the English Chemical Trust. Mr. Andrew Percy Bennett is former British Minister to Costa Rica, Venezuela and Panama. But the most important person, from the American point of view, is the chairman, Mr. Duncan Elliot Alves. Mr. Alves will be remembered as head of British Controlled Oilfields, organized under British Government control for the avowed purpose of obtaining Latin America's resources to be held for exclusive British Government service in time of need. Mr. Marsh's idea that the London Government could establish naval bases in this concession area near the Panama Canal, without being observed and stopped by the United States, is naive. Military and naval men think about all the British Government can obtain from this concession, if it so desires, is a very thorough knowledge of this rather inaccessible region, which would be of value in event of war between the two countries.

Mr. Alves's record with the British Controlled Oilfields and his association with this extensive and apparently valueless tract near the Panama Canal, however, increases the mystery in Washington's mind. That mystery deepens when a British Government company attempts to get possession of another large neighbouring territory across the border in Colombia.

The United States Government is especially sensitive to any act in Panama or the Canal region, which suggests that a foreign Power is interested. Washington has refused repeatedly to permit foreign commercial aircraft corporations to operate in the Canal Zone.[135] Establishment of air bases by Colonel Yates, as permitted by the proposed Colombian concession, would disturb greatly the American military and naval strategists. Washington's suspicion regarding holdings of foreign Powers extends a long distance from the Panama Canal itself. When a Japanese syndicate was reported seeking to acquire the Magdalena concession in Mexico, the State Department announced it would view with grave concern the "actual or potential possession of a harbour or any other place" by any non-American government in an area which might threaten the defences and communications of the United States. This was the attitude of the Senate in the Lodge resolution.[136] Transfer of the Magdalena concession to the Japanese company, according to the Department, "would be quite certain to be interpreted in some quarters in a manner to cause a great outcry and such a result would be so obvious a cause of regret to the Government of the United States that it would appear unnecessary further to comment on the disposition of the Federal Government."

Yates's proposed concession in Colombia would give to the British hundreds of miles nearer the Panama Canal than Magdalena Bay, "the actual and potential possession of a harbour or any other place," which Washington declares a matter of grave concern.

The merest hint of such a British interoceanic canal as permitted by the Yates concession is considered a threat to basic United States

commercial and naval policies. Under no conceivable circumstances will Washington permit construction of any canal connecting the Caribbean and Pacific which is not under absolute United States control. This fixed policy resulted in United States acquisition by the Wilson Administration of exclusive perpetual rights to build such a Nicaraguan canal. The amount paid was $3,000,000. That action was taken because other foreign Powers desired canal rights. Not until several years later was it apparent that the United States could well use for commercial and naval purposes two canals. Protection of these Nicaraguan canal rights, and supplemental naval base rights at Corn Islands and Fonseca Bay, was given by President Coolidge in his special message to Congress as a major reason for military intervention in that country in 1927.[137] Congress in 1928 considered bills for survey and immediate construction of such a canal.[138]

Political conditions in Panama also partly explain Washington's sensitiveness to the Yates contract. While the Colonel and the British Minister in Bogota were trying to obtain territory flanking the Panama Canal, the Panamans themselves were protesting the United States' claim to complete sovereignty over the Canal Zone. The Panamans were not only disputing this delicate issue in secret with Washington, they were challenging the United States' claims before the League of Nations. Senor Morales, Panaman Minister of Finance and Geneva delegate, said in an address to the League Assembly:

"It is, however, a serious question in reply to which no compromise is possible between the two Governments, because it cannot be settled unless one of the participants changes its view wholly and completely and adopts the other's views. The United States maintains that Panama has transferred its right of sovereignty over the Canal Zone, while Panama maintains that it has only granted such rights and authority as they would possess if they were, in fact, the sovereign Power, for the specific purpose of constructing, maintaining, operating, sanitating, and protecting the Canal."[139]

Refusal of the Panaman Assembly to ratify the United States treaty, and the prospect of continuance indefinitely of that dispute, heightens Washington's concern over complications or possible foreign intervention in the Canal region as implied in the Yates contract.

This United States policy is well known to the London Foreign Office. Therefore the British expected Washington to protest to the Colombian Government against the concession. In Bogota it was predicted that the United States would protest, and that this would induce the Colombian Congress to ratify the British contract to spite the United States. But Washington for once postponed an opportunity to flaunt its hated interpretation of the Monroe Doctrine in the face of a Caribbean country. Rumours that such a protest had been made were sufficient to start an indignant anti-Yankee press campaign in Bogota. This was deflated by official denials.

Yates-Montalvo strategy was thus forced back to the local issue. Native opposition from the beginning had been aroused chiefly by the Government's usurpation of power.

The President and Cabinet had tried to give away a right of which Congress alone could legally dispose. There was no way out then for the British and the Government except to put through Congress legislation empowering the Executive to grant such concessions. A measure known as the Sanchez bill was written by Minister Montalvo, and introduced in Congress in the summer of 1927. Its passage was blocked.

The British then fell into the trap set for, but avoided by, Washington. Downing Street intervened. This incident was described by the Bogota press, according to an American agency dispatch of October 23, as follows:

"*El Tiempo* announces that the British Minister sent a note to the Government demanding extension of the session of Congress while discussion of indemnification of $12,000,000 for expropriation of a

British company's mines of Supia and Marmato is pending, assuring that the Foreign Office would compromise for $6,000,000 provided the Yates contract is approved. *El Tiempo* adds the Foreign Minister read the British note in secret session of the Senate, where it caused great indignation, the Senate deciding to protest it and to reject the settlement, which will be arranged by the Government administratively."

From the American point of view Great Britain's resort to strong-arm methods and the consequent anti-British reaction in Colombia has probably prevented for many months any Congressional action on the contract. The British and the Bogota Government, unwilling to admit defeat, introduced in place of the Sanchez measure an Emergency Petroleum bill with a similar rider empowering the Executive to dispose of national lands to concessionaires. This rider was defeated by Congress.

Under the amended Emergency Petroleum law (Law No. 84), the Yates contract must be suspended pending its acceptance by Congress or passage of a new law empowering the Executive to grant the concession. But the new law apparently permits Yates to begin exploration whenever the Executive desires. The law, as passed on November 17, 1927, and promulgated five days later, provides:

"Article 3. Until a new law, amending present legislation on hydrocarbons, shall be in effect, the proposals and contracts referring to the hydrocarbons treated by Article 1 hereof, that are pending in the office of the Minister of Industries, or of the Council of Ministers, the Council of State, the Finance Board, or the Congress (in the case of the last mentioned, if not specifically approved by it), shall be held in suspense; however, exploration may be carried out under the conditions that the Government may stipulate."

While Washington was worrying over international implications of the British concession and provisions of the Sanchez bill making the contract effective, American oil interests were concerned with restrictive provisions of the bill affecting them and their industry. They were

convinced that no oil was to be found in the Yates region and were mildly interested in alleged political and naval intrigues of the British Government. But they were ready to fight against the Colombian Government's new policy of "Mexicanization."

This nationalization policy was embodied in the Sanchez bill as prepared by Minister Montalvo. Though debate on the bill was not completed when the 1927 Congress adjourned, necessitating passage of a less drastic Emergency Petroleum law, the Government is expected to try to enact the Sanchez bill in 1928. The bill and the policy behind it are criticized by American oil interests and some Colombians as unconstitutional and confiscatory.

Under the proposed law the Government Executive could challenge titles effectively, withhold drilling permits, supervise exploitation, exact a 20 per cent production royalty, and restrict to 15,000 hectares a company's holdings in any one province—excepting only so-called national companies such as the projected British monopoly concession organization, which might exploit 100,000 hectares in each zone. The Executive, instead of Congress, would dispose of national lands. A translation of the proposed Sanchez law may be found in the October 1927 issue of *O'Shaughnessy's South American Oil Reports*, from which the following excerpts are taken:

"Article 1. The petroleum industry in Colombia is national, and therefore is declared to be a public utility. Its national character manifests itself not only by the administration, direct or delegated, of the exploration and exploitation of oil lands, but also through the intervention and the paramount inspection that inheres to the Government in every act which has relation to such industry.

"Article 2. Explorations and exploitations of oil lands with regard to which the previous article treats may not be made without the previous permission of the national Government, whether the lands in question be the property of the national or not.

“Article 3. For explorations on national lands the permit shall be evidenced by contract entered into for that purpose.

“Article 4. For explorations in privately-owned lands, the basic title to which antedates October 18, 1873, the permit shall be given in writing and shall be issued against the undertaking on the part of the land-owner to furnish to the Government all data concerning the land to be explored, properly documented, and of the progress and results of the explorations. ...

“Article 5. The permit for exploitations in national lands shall be evidenced by the contract to be entered into for that purpose in accordance with the laws governing the matter, provided that it has been approved by the Council of Ministers, the Council of State, and the Treasury Board.

“Article 6. The Government is prohibited from making contracts for petroleum exploitation with foreign individuals or foreign companies except in the cases provided for in Article 11 of the National Constitution.

“Article 7. For exploitations in privately-owned lands, whose basic title antedates October 18, 1873, the Government may (i.e., in its discretion) grant a permit, provided that there be delivered to the Government a copy of the respective title of ownership ... and either the contract which has been entered into ... or the program of exploitation. ...

“Article 8. In the contracts which the owners of lands with titles anterior to October 18, 1873, make with private parties for petroleum exploitations, the contracting parties shall recognize in favour of the State 20 per cent of the gross products of such exploitations, which the State shall collect in such form as the State may deem most convenient for the public interests. ...

“Article 10. The Government shall proceed as soon as possible to build, for account of the nation, a refinery to treat the petroleum which belongs

to it in the exploitations of the Tropical Oil Company derived from its royalty therein, to which it is entitled in accordance with the contract now in force with said company. ...

"Article 13. Application for explorations and exploitations pending in the Ministry of Industries are declared in suspense while the Government is acquiring an exact knowledge of the petroleum wealth of the country.

"Article 14. Applications for lease contracts now pending even though they have been accepted by the Ministry do not constitute any vested rights in the applicants. ...

"Article 16. The Government is empowered to form companies for the development of national lands and to engage in explorations for petroleum, but only with native or naturalized citizens or with domestic corporations or foreign corporations nationalized in accordance with the laws of the Republic. ...

"Article 18. Lands wherein Government exploitations are to be established, whether by administration or by delegation to one or more companies wherein the State is a stockholder, may have a continuous extension up to 100,000 hectares in each exploitation zone. ...

"Article 20. Contracts of joint venture (*los contractos de compania*), which the Government enters into pursuant to the present law, require for their validity the approval of the Council of Ministers, of His Excellency the President of the Republic, and of the Treasury Board, in addition to the revision which the Council of State shall make with reference to the legality of the contract. ...

"Article 22. Only in those cases of exploitation delegated to companies wherein the State is a stockholder, may an individual or corporation acquire exploitation rights in lots larger than 15,000 hectares in a single department or *intendencia*. In all other cases, no lease contracts covering extensions greater than 15,000 hectares in a single department

or *intendencia* shall be recognized nor shall transfers tending to accumulate in one single person or corporation greater extensions be permitted. ..."

When the Sanchez measure was postponed by Congress for future debate in 1928, the emergency bill was introduced and became a law. The latter incorporated the Government's nationalization policy but did not carry details so far as the original bill. This law (No. 84), as translated by the State Department, February 15, 1928, provides:

"Article 1. The Nation reserves ownership of and the right privately to exploit the accumulations of hydrocarbons which may exist in public lands, or those owned by it under any title. This provision shall also be applied to such hydrocarbons as may exist in lands upon which have been granted concessions, leases or permits for exploration or exploitation, and which, for any reason, shall have reentered or shall re-enter the possession of the Nation. Note: In event that the Government should avail of the legal authorizations now in effect, for private exploitation of the petroliferous accumulations referred to by this Article, it shall submit the respective contracts to the approval of Congress."

Oil companies are required by Article 2 to submit to the Minister of Industries within six months "the documents evidencing ownership of the lands in which such exploitation is being carried out, and the lease contracts, or contracts of any other sort, entered into with the owners of such lands, should the owners themselves not be carrying on the exploration." The penalty for non-compliance is not forfeiture but a fine of 200 to 1,000 pesos for each month of delay.

Executive Regulation No. 150 of January 28, 1928, putting Law No. 84 in operation, is even more severe. It provides that foreign owners must file proof of title before March 5, 1928. As a penalty for non-compliance the Government is empowered to seize property and equipment and cancel drilling permits. Though the American companies refuse to comply, the Minister of Interior in May 1928 had not yet seized

properties. Before the time limit for filing expired, the companies entered suit in the Supreme Court challenging the law and regulation. Their argument is stated by *O'Shaughnessy's South American Oil Reports*, March 1928, as follows:

"This regulation requires that lawful owners of oil rights on lands, titles to which antedate October 1873, submit before March 5, 1928, proof of title (with surveyor's maps, geological reports, etc., etc.), in form and substance satisfactory to the Minister of Industries in order to secure necessary drilling permit. If American oil companies fail to comply with this illegal and arbitrary regulation, the Minister of Industries is authorized to declare their oil rights to 6e the property of the Nation, to stop work and seize their maps, geological data, drilling equipment, buildings, etc., and to fine or even imprison their agents.

"Any such action by the Minister, of course, would be confiscation of the property of foreigners without due process of law, and without compensation. The theoretical remedy open to American oil companies to contest the Minister's right to such procedure is in fact no remedy at all, as it would require from three to six years to secure an adjudication of the issue, and in the meantime, American oil companies would have been deprived of their property and would have suffered irreparable loss.

"Perhaps the most objectionable provision in the Regulation No. 150, from a practical operating standpoint, is the right conferred on the Minister of Industries to permit or deny in his legally uncontrolled discretion, American oil companies to drill lands on which they own the oil rights. It is by this device, borrowed from Mexico, that the Minister hopes to 'supremely control' the oil development of Colombia. The parallel of Colombia's attitude with that of Mexico is inescapable. The attempt is to declare all privately-owned oil rights the property of the Nation, and to force lawful owners to agree to conditions of development different and less advantageous to them than the laws, under which such property was acquired, accorded to them."

Another provision of Law No. 84 puts the Government into the refining business. This is aimed directly at Standard, which operates at Barranca-Bermeja the only refinery in the country. That installation handles 6,000 barrels a day. It is a small plant, designed to meet local needs.

Under the De Mares concession contract the Government receives from Standard a 10 per cent royalty, to be paid either in crude oil or in cash. Hitherto the Government has been satisfied with money payments, receiving about $1,500,000 in 1927. Under the new law the Bogota Cabinet proposes to take the Standard royalty in oil, to be refined in its own plant. This refinery and its product will compete with the Rockefeller monopoly. Because of tax and other handicaps the company cannot compete successfully with a State product, at least for a while.

It is argued, however, that the Government through graft and lack of experience will fail in business. This conviction did not prevent Standard from trying to eliminate the refinery provision from the bill. Standard pointed out that even a small refinery would cost not less than $2,500,000, which the impoverished Bogota Government could not afford to lose. The Government is willing to take the chance, apparently determined to obtain the profit now made by Standard on Government royalty oil and to force the American plant out of business.

In embarking on this manufacturing venture, the Government was also empowered in 1927 to take over the Carttagena harbour concession. That concession was purchased from British interests by Standard in 1921 and would not ordinarily expire until 1944. The company is constructing at La Machina, the Cartagena wharf, a storage tank of 80,000 gallons capacity. This tank will not be seized under the new law.

Taxes levied on the two Standard companies were also in 1927 increased from three to eight per cent.

In retaliation against “Mexicanization” of Colombian oil, American companies have decided upon a quasi-boycott of Colombia. Standard of

New Jersey, with its large investments sunk in the Tropical wells, Andian pipe-lines and tanks, of course, will carry on. But other subsidiaries, with undeveloped lands, will resort to a watchful waiting policy. Gulf interests will delay exploitation of the disputed Barco concession and the trans-Venezuelan pipe-line. The Texas Company options on tracts aggregating 2,000,000 acres will not be taken up at once. These tactics are based on the premise that Colombia is entirely dependent upon large-scale capital for development of its subsoil riches. With Russian production mounting rapidly, new gushers flowing in the Mosul fields and a "friendly" Government in the neighbouring competing fields of Venezuela, Colombia is not in a position to drive a hard bargain with the American companies, according to the latter. Whether the British will join with the Americans in a temporary united front to enforce such a boycott is another question. Attempted Anglo-American co-operation in boycotting or sabotaging Russian and Mexican oil has not been such as to alarm the Colombians.

The Washington Government in handling political aspects of the Colombian problem is following a similar policy. Having succeeded through action of the Colombian Congress in blocking the Yates contract temporarily, Washington feels it can afford to act less abruptly in dealing with Colombia's restrictive oil legislation than it did in protesting Mexican laws—unless, of course, it is faced with an "overt act" of property seizure. A more propitious moment for protest may come after the present cycle of anti-Yankee sentiment in Latin America occasioned by the Nicaraguan and Panaman disputes, it is hoped.

Washington, in the main, counts on the American economic and financial hold upon Colombia to check that country's tendency to "go Mexican."[140] The official *Colombian Review* of the Bogota Government stated in September 1927: "The ambitious [railway and general construction] program on which Colombia is now embarking has been made possible by reorganization of her finances under the plan of the [United States] Kemmerer Commission." In 1926-27 Colombia borrowed $81,500,000 from the United States. At the close of that

period Mr. Albert E. Ellis, Assistant Trade Commissioner, cabled the Washington Government from Bogota that the Treasury deficit was over $8,000,000. There followed in April 1928 an additional New York loan of $35,000,000. Colombia probably is in too deep as a debtor to ignore or to defy United States policy successfully.

In reacting against this alleged bondage to the United States, the Colombian Government apparently has decided the only escape is to play Great Britain against the United States, encouraging the two Powers to weaken each other. During congressional debate on the emergency petroleum bill, Representative Uribe Afanador and other opponents of the measure were charged by Minister Montalvo with acting for American companies. The Minister in turn was charged with representing the interests of Colonel Yates and the British.

Little Colombian encouragement is required to stimulate Anglo-American conflict, already growing elsewhere in the world. But Colombians should realize that the battle ground of giants is no healthy place to be.

123. Ibid.. Feb. 21, 1928. Cf., Appendix A.

124. Tulsa *Oil and Gas Journal*, Dec. 29, 1927, p. 47.

125. Ise, *supra*, p. 466.

126. Tulsa *Oil and Gas Journal*, Dec. 29, 1927, p. 247.

127. Cf., Chap. IV.

128. New York, *O'Shaughnessy's South American Oil Reports*, June 1927.

129. State Department, *Foreign Relations*, 1924, p. 163.

130. Nearing and Freeman, *supra*, p, 83, Washington *Post*, March 24, 1911.

131. New York *Times*, March 14, 1921.

132. Text in Panaman *Gaceta Oficial*, March 26, 1925.

133. Cf., New York *World*, April 5, June 4, 1926.

134. New York *Times*, June 6, 1926.

135. Cf., New York *Times*, No,. 18, 19, 1927, and New York *Herald Tribune*, Nov. 27, 1927, for dispute over Colombian-German Scadta Air Line application for Panama bases.

136. Cf. Moon, *supra*, pp. 413-414.

137. 69th Congress, 2nd Session, House Document No. 633.

138. New York *Times*, March 29, 1928.

139. League of Nations, *Minutes of Eighth Ordinary Session of the Assembly*, 11th Plenary Meeting, Sept. 10, 1927.

140. Cf., Robert W. Dunn, *American Foreign Investments*, p. 74. 1926.

CHAPTER EIGHT
Roumania Goes Red a Little

MOST of the familiar oil problems of other producing countries exist in Roumania. There are nationalization and restriction laws, Government ownership of part of the pipe-line systems and regulation of export, high taxes, alleged bribery of officials, Anglo-American conflict inherited from the San Remo pact, and diplomatic controversy.[141] But Roumania is not so vital to the United States as are the areas of the Caribbean, Russia and the Near East, where larger petroleum resources and international issues intensify the struggle.

The State Department has protested repeatedly against provisions of the Roumanian mining law of 1924.

"The protection of important American interests against any prejudicial provision of the Roumanian mining law regulating the exploitation of subsoil resources of Roumania and putting into effect the clause of the new Constitution nationalizing such resources has occupied the Department of State during the last four years," Secretary Kellogg said in 1928.[142]

The law provides in Article 1 that "all strata of mineral substances from which metals, metalloids or combinations of these substances may be extracted, as well as strata of mineral fuels, bitumens, mineral waters in general and natural gases of all kinds and all the riches of the subsoil of whatever nature are and remain the State's property in all their development from the surface to no matter what depth."[143]

Articles 32-33 state that "concession [for private exploitation] is granted only to enterprises constituted as Roumanian mining joint-stock companies according to the provisions of the commercial code and which at the same time fulfil the provisions of the present law. ... The capital held by Roumanian citizens in the company must represent at least 60 per cent of the capital; for existing undertakings, which in the

course of 10 years from the promulgation of the law obligate themselves to nationalize, the percentage of Roumanian capital is reduced to 55 per cent. Two-thirds of the members of the board of directors of the committee of management and of the auditors, as well as the president, must be Roumanian citizens. Existing joint-stock companies which do not fulfil these conditions may benefit from the advantages of Roumanian joint-stock companies if, during the first 10 years from the promulgation of the present law, they transform themselves in accordance with the rules shown above and on condition that, from the beginning, the majority of the members of the board of directors, of the committee of management, as well as the president, are Roumanians. In case the company does not conform in this term the concession will be withdrawn, when the company is to blame for the noncompliance."

The State Department argues that these provisions in effect confiscate Standard's (N.J.) rights and investments of $70,000,000. Though the law does not apply until 1934 to foreign properties acquired before 1924, the Rockefeller company maintains that its present holdings will be exhausted by 1931 and that its large capital investment will become valueless unless it can obtain new lands without the nationalizing discriminations of the law.

But foreign companies have suffered little from the law so far. By alleged financial donations to certain high Roumanian officials, some foreign corporations have continued to operate old properties with a minimum of governmental interference. Though there has been no formal change in the law, Dutch-Shell and Anglo-Persian are said to be obtaining new lands through formation of "straw" companies with dummy native officers. These British companies have also acquired Crown land concessions. Standard has been less ready to play a game in which native Government officials are alleged to share profits as a reward for stretching the law.

Competition of cheap Russian oil in the European and Near East market in 1927-28 brought down the high Roumanian export tax.

But even Mr. Deterding, whose Dutch-Shell has a favoured position there, is displeased with the situation. "The considerably increased production of that country does not give a correct idea of the present position of the petroleum industry there," his 1926-27 annual report said, as summarized by the London Times, June 9, 1927. "The increase is mainly the result of the granting of concessions on a number of State lands to a few privileged companies-lands in which the presence of oil was in many cases proved by non-nationalized companies. Further, in consequence of the fluctuations in the rate of exchange, the burden of taxes and the disorganization of transport, the general economic position in Roumania is considered to be such that not a single Roumanian petroleum company, not even those with the largest production, can make a profit in proportion to the labour expended and the risks taken."

The "objectionable" law is nominally an attempt to regain the petroleum resources which have fallen into foreign hands almost exclusively.[144] Foreign companies hold five-sixths of present reserves. Of 160 operating companies, 10 predominantly foreign firms have 92 per cent of total output. Measured by standards in the United States, Russia, Mexico, Venezuela, or Persia, the production of Roumania is a minor factor in the world market.[145] But engineers expect the output to double if the Government lifts restrictions on foreign exploitation. In 1927 output was 26,100,000 barrels, compared with 23,300,000 in 1926 and 10,867,000 in 1923.

Dutch-Shell and Anglo-Persian tried through the San Remo Agreement to keep Standard from becoming a large producer in that country. They failed to keep out the American trust, but these two British companies continue to dominate production. Dutch-Shell and Anglo-Persian own Astra-Romana, the largest company in the country; they have part interest in Steaua Romana, the third largest producer, and in other important corporations such as Orion and Phoenix. Dutch-Shell production almost doubled in 1926-27 over the preceding year. The Service Petroleum Company of London was organized in 1927 with a

capital of $5,000,000 and acquired the old Industrie Roumaine Miniere, with 9,000 acres of the best Roumanian oil land and two refineries.

Standard has controlling interest in Romano Americana, which ranks second in single production, but that is the only American property of significance. French capital, through Steaua Romana, Concorda, Colombia and Aguila Franco-Romana, ranks next to the British in total production and control of reserves.

Standard and the United States Government are waiting impatiently for Roumania to swing back from her "nationalization extremes." Perhaps Yankee opportunity will come through financial pressure and control of credits. After failing to get money elsewhere, Roumania in 1928 was seeking New York participation in a $60,000,000 international loan. Standard banking interests have blocked Roumanian loans before and may be able to continue, until assured of satisfactory amendment of the mining law and of non-discrimination in administration of that law. The State Department in the past has vetoed loans to foreign governments pending settlement of disputes over American private property rights. In this oil and credit conflict American interests think Roumania must accept their terms in the end.

141. Tulsa *Oil and Gas Journal*, Dec. 29, 1927, p. 136.

142. Frank B. Kellogg, *Foreign Relations*. Republican National Committee, 1928.

143. State Department translation.

144. Cf., New York *Nation*, vol. 119, pp. 295-296.

145. Cf., *Petroleum Facts and Figures, supra*, pp. 15-16, 51-53.

CHAPTER NINE
The State Department Forces the Open Door in Mosul ?

THE Mosul issue is important because it shows how far the United States and European Powers will go in competition for oil lands, and because of the State Department's tardy and questioned victory in forcing limited American participation in a British monopoly field. The present settlement represents an enforced, and perhaps temporary, experiment in co-operation between British companies and Standard.

"After long negotiations rendered difficult by varying national viewpoints, a way has been discovered for friendly international co-operation in a concession covering a possible new oil field of first rank," was the comment of Standard's *Lamp* in April 1926. "For the first time there has been negotiated what promises to be a practical Open Door policy in which four great nations take equal participation in one field."

This territory was sufficiently vital to be one of the causes of the British-German conflict leading to the Great War. We have seen how the British Government on the eve of the war snatched the Mosul concession from the American, Admiral Chester, by organizing the Turkish Petroleum Company in which Germans were given one-fourth interest in return for their own 1904 concession claim.[146]

"Recently published diplomatic documents show that the danger that Chester might obtain these concessions was not without influence as a factor in predisposing the European rivals, before the war, to agree among themselves and exclude the Americans," says Dr. Parker Thomas Moon.[147]

After the British defeat by the Turks in 1916, London in the Sykes-Picot Agreement offered to support French claims to Syria and Mosul in exchange for French help in the Near East. The British drive against Bagdad was successful in the spring of 1917. But the collapse of their Tsarist Russian allies prevented the British from reaching Mosul. The

Armistice eliminated the Turkish-German army defending Mosul. Then the British and French victors began to argue over the eastern frontier line in Syria, the French maintaining it should include part of Mosul as secretly promised by Sir Edward Grey. In January 1920 the British withdrew from Syria, and the following April signed the San Remo Agreement with France. That agreement, it will be recalled, excluded Americans from participating in Mosul oil exploitation, but granted the French a 25 per cent interest in the (British) Turkish Petroleum Company monopoly in exchange for outlet pipe-lines to be built by France across Syria. While the State Department at Washington was writing sharp notes to London, challenging the San Remo Agreement as a violation of the Open Door principle and of rights of equality won by America in the war, the British and French fell to bickering again.

France charged the British with encouraging a Turkish invasion of Syria, with inspiring the Arab, Emir Feisal, to declare himself King of Syria, and with stirring up revolt among the Lebanon tribes. France put down the Lebanon revolt and forced Feisal to flee to London. But the conflict stretched out until March 1921. Then pressure of the war-weary and financially impoverished French people drove General Gourand to sue for peace. In retaliation against Great Britain, France in October 1921 signed a treaty with Angora giving the Turks the coveted Mosul fields claimed by the British. France thereby tore up the San Remo Agreement, disputed by the United States. Great Britain struck back at France. She named Feisal King of Iraq, and claimed Mosul as part of Iraq territory.

France and Great Britain then hit upon the expedient of making war against each other through third parties. Greece, with dreams of empire in Asia Minor, had been waging miniature war against the torn remnants of Turkey since 1920. France in 1922 completed an alliance with Turkey, against Greece. Premier Lloyd George in London began to supply money and munitions to King Constantine in Athens, late ally of the German Kaiser. Within a few months Turkey decisively defeated Greece. Constantine toppled from his throne. Great Britain had lost.

After a frenzied appeal for the British Empire to rise against the Turks, in which he attempted to arouse religious fears and passions for a "holy" Christian war against Islam, Mr. Lloyd George fell like Constantine. Apparently the long British struggle for Mosul oil had failed.

But British diplomacy has a way of waiting its time until the old trading trick can be played. That time soon came. France under Premier Poincaré wanted to occupy the German coal and industrial district of the Ruhr, and needed Great Britain's tacit support. Great Britain's price was French help in the coming Lausanne Conference with Turkey. France agreed. It seemed a good bargain for both.

In preparation for the Lausanne Conference, which opened in November 1922, British officers in October led Feisal's troops into the disputed Mosul territory. An attempt had been made in the so-called Cadman oil truce to silence the United States' Open Door opposition to British monopoly by promising Standard Oil one-quarter interest in the Turkish Petroleum Company monopoly concession. This was the concession regarding which Secretary of State Hughes declared: "We objected to the alleged concession to the Turkish Petroleum Company owned by foreign interests because it had never been validly granted, and in so doing we stood for American rights generally and not for any particular interest."[148]

Though Standard was satisfied with the prospect, two other American groups were fighting the British. One was led by Admiral Chester, whom the British Government had manoeuvred out of his concession of 1913. The other group consisted of American financial and legal representatives of the heirs of Abdul Hamid. They claimed the Mosul field on the basis of a 1918 agreement. Standard had tried unsuccessfully to buy this Abdul Hamid claim. Admiral Chester's supporters charged in effect that the State Department conveniently forgot the Open Door principle after the provisional British deal giving Standard a minority share. In fact, the United States continued its Open Door protests but with less force.

The British, with French support, prepared at Lausanne a draft treaty containing a clause which would return to the Turkish Petroleum Company the old German Bagdad Railway Mosul concession.[149] The Turks were given five days to sign. But with victory in sight for the British, another dispute between France and Great Britain allowed the Turks to slip out of the net. Paris blamed London for sabotaging French occupation of the German Ruhr district. After a few secret conversations between the French and the Turks, the latter rejected the draft treaty, defied the British ultimatum, and broke up the Conference. As a parting shot the Turkish delegate, Ismet Pasha, charged Britain "with great military effort with a view to suppressing by force of arms the Arabs's aspirations to independence and their constant desire to see the end of a regime which, by whatever name it may be called, is none the less a mere colonization."

Admiral Chester, who had been used so many times in the past by the Turks as a shield in their conflict with the British, was again given by Turkey a 99-year exclusive railway, mineral and oil concession, covering 20 kilometres on either side of a 2400-mile right-of-way.[150] This in effect was the old German Bagdad Railway concession. Besides Mosul oil, it covered the untapped fields of the vilayets of Van, Bitlis, and Erzerum. Having obtained a monopoly concession, Admiral Chester suddenly ceased to demand Open Door protests from the State Department. Completely misunderstanding the purposes of the Republican Administration in Washington, which favoured Standard, the Democratic Party's platform in the next national election in the United States condemned the Lausanne Turco-American treaty on the ground that "it barters legitimate American rights and betrays Armenia for the Chester oil concessions."

The Ottoman-American Development Company, organized by Admiral Chester, also obtained rights under the concession to construct public works and ports on the Black Sea and Mediterranean, in addition to the railway, mines and oil wells, at an estimated cost of $1,500,000,000.

But there were several difficulties ahead. Not Turkey, but Great Britain was in possession of the Mosul territory. The State Department would not give effective support to the Ottoman-American Development Company. Standard, with its hope of sharing the Mosul riches through the Turkish Petroleum Company, later was charged with helping to choke off the Chester credit supply in Wall Street. And so ended the Admiral's dream.

But before that, the Chester concession was useful as a Turkish threat against Great Britain when the second Lausanne Conference convened in April 1923. Turkey at that meeting forced through her demands for abolition of foreign exterritoriality and for retention of the Dardanelles and Bosphorus. She could not, however, force Great Britain to give up Mosul. The Mosul dispute was submitted by the Lausanne Conference to direct negotiations, with the provision that the League Council should draw the Turkish-Iraq frontier line if the disputants failed to agree within nine months.

Following the Lausanne Conference, London succeeded through secret negotiations in silencing the State Department's Open Door protests. In these negotiations the British pointed to the monopolistic character of the Chester concession, renewed their pledge to give Standard and other American companies a share in the Turkish Petroleum Company monopoly, and intimated that the London Government would not make payments on its war debt to the United States if Washington persisted in blocking British control of Mosul oil.

After long delay the League Council in December 1925 made its anticipated award in favour of Great Britain. The ilayet of Mosul was included in Iraq territory under a 25-year British mandate. Turkey signed the frontier treaty in June 1926, later receiving $2,500,000 in lieu of certain oil royalties. The Iraq 75-year concession grant to the Turkish Petroleum Company modified nominally some of the original monopolistic features.

A French group (penetrated by British capital) and an American group were each given first 25 per cent, then 23.75 per cent, which was later reduced to 21.25 per cent, interest in the company. In the American participating group are Standard of New York, Standard of New Jersey, Pan-American Petroleum and Transport (Standard), Atlantic Refining (Standard), and Gulf Refining. Sinclair declined to go in. Mr. C.S. Gulbenkian, an Armenian with British connexions, has five per cent.

"Recent negotiations have altered the percentages to be issued on the contemplated Iraq petroleum production to give 10 per cent to the Anglo-Persian, S per cent to Mr. Gulbenkian, and the remainder equally divided among the French, American, Shell and Anglo-Persian interests, which will therefore receive 21.25 per cent apiece," Trade Commissioner MacLean, Paris, on March 5, 1928, reported to the Commerce Department. At that time there was no agreement as to whether shares were to be distributed in profits, in refined, or in crude as desired by France.[151]

Great Britain retains controlling interest, through Dutch-Shell and Anglo-Persian together holding 52.50 per cent.

What kind of an Open Door is that? This question is put by American oil men who say the State Department's "Open Door victory" gives certain Americans less than a quarter interest, whereas before Sinclair, Standard of New York, and Chester had practically all.

Why did Turkey accept without war the League's award of Mosul, which had been Turkish territory for four centuries? Here is the answer of M. Henri de Jouvenal, former French High Commissioner in Syria:

"Early in 1926, when the League's decision on the Mosul question nearly precipitated an Anglo-Turkish war, England offered Cilicia [Turkish territory] as a bait to Italy. I was present in Angora at the time, attempting as High Commissioner in Syria to negotiate a treaty of neighbourliness with the Turks. Personally I have not the slightest doubt that the fear of an Italian landing in Cilicia hastened an arrangement

between the British and Ottoman Governments whereby Italy was cheated of a military adventure."[152]

However the trick was actually turned by the British, it is now an accomplished fact. But how effective are the modifications purporting to remove the monopolistic or Closed Door stigma from the Turkish Petroleum Company concession?

Standard's defence of the concession was made in *The Lamp*, April 1926: "Even these varied interests [British-Dutch-French-American] are not to have in combination anything approaching exclusive rights in this vast area. On the contrary, provisions incorporated in the Government grant specifically forestall this. It is provided that the Turkish Petroleum Company may select any 24 plots, each of eight square miles, for development. Four years from the date of the Convention all of the geological and other information covering the areas to be offered competitively is to be made public for the benefit of any individuals or companies that may wish to enter the territory, and the Turkish Petroleum Company must sell to the highest bidder, under Government supervision, in tracts of eight square miles which have been indicated by the Government or outside parties. This procedure will take place each year by the successive offer of a further 24 plots annually. When the relative size of the 24 pieces (192 square miles) to be reserved by the Turkish Petroleum Company and the area of the concession (89,000 square miles) granted by the Iraq Government are considered, it will be seen that the international group has made a doubtful bargain unless good fortune attends its exploration work." The Standard statement goes on to emphasize the huge capital expenditure necessary for drilling far from railheads and for constructing 700 miles of pipe-line at a cast of $50,000,000.

Through the Mosul settlement, the British obtained two large potential fields close to and supplementing the great south Persian concession of Anglo-Persian. In addition to retaining majority British control of Turkish Petroleum's concession, which covers most of the vilayets of

Mosul and Bagdad, Anglo-Persian obtained the Ahwaz fields of the so-called Transferred Territories covering the rest of the Mosul-Bagdad oil strata. In reporting the gushers of Turkish Petroleum near Kirkuk in Mosul and the Anglo-Persian success in the new Ahwaz pool, the Bagdad correspondent of the London *Financial Times*, October 28, 1927, pointed out:

"We [British] shall have the satisfaction of knowing that three enormous fields situated within close proximity of each other, and capable of supplying the oil requirements of the Empire for many years to come, are being almost entirely developed by British enterprise."

Turkish Petroleum geologists and engineers have confirmed the existence of three large pools within the Mosul concession area. The north-east pool runs from Hammam Ali through Kirkuk and Tuz Kharmati to Kind-i-Shrin. A second extends south of Mosul from Khaiyara through Kifri to the Jebej Oniki Imam. Another pool starts at El Hadr, south-west of Mosul, and runs toward Bagdad along the Tigris to Fet Hah Pass and Mandali.

Drilling, which began in April 1927, extended to nine of the company's 24 fields in the winter of 1927-28. First oil was struck at Palkhana at 1,329 feet. A well at Quiyara gave 5,000 barrels a day from a seepage pool alone. Then the well at Baba Gurgur came in, running 95,000 barrels daily. Enthusiastic prophecies, especially in France, have been stimulated by these initial gushers. "The successful result secured from the Kirkuk area would appear to indicate a very promising future for this company," Sir John Cadman said in his November 2, 1927, Anglo-Persian report.

The Mosul Agreement is a truce rather than a permanent peace pact. Already there is difference of opinion among the different groups incorporated in Turkish Petroleum. First there is a dispute between the British and French over location of the $50,000,000 pipe-line to the Mediterranean. This weakens the British position, despite their majority

control and their hold upon the Iraq Government. Control of the pipe-line is becoming a major political factor in Near East diplomacy.

Britain desires to lay the line over a round-about course, southward through Iraq and thence across Palestine to the sea. This route is entirely within British territory-an important consideration in event of war. France insists on the original route, planned since the San Remo Agreement, running directly west from the Mosul fields, across Iraq and Syria. France, as the Mandate power, would thus control the outlet for Mosul oil. A railway is also to be constructed from Mosul to the Mediterranean, probably over the route chosen for the pipe-line. Written provisions of the San Remo Agreement, regarding pipe-lines and railroads, follow:

"The British Government agrees to lend their support to any arrangements by which the French Government may obtain from the Anglo-Persian oil supplies which may be transported by canalization from Persia to the Mediterranean by means of any pipe-line which may have been constructed in the interior of those territories placed under French mandate, and regarding which France has accorded special facilities, up to 25 per cent, of the oil so transported on such terms and conditions which may be fixed by common accord between the French Government and the Anglo-Persian Company.

"In consideration of the foregoing agreement, the French Government will acquiesce, if such desire is expressed, and as soon as the request is made, to the construction of two pipe-lines and separate railways, these latter necessitated for the construction and upkeep of the pipe-line and for the transportation of the oil emanating from Mesopotamia, and Persia, and traversing French spheres of influence up to a port or ports on the eastern Mediterranean. The said port or the said ports are to be chosen by mutual agreement by the two Governments.

"In the event of pipe-lines or railways of this nature traversing a territory in the interior of a zone under French influence, France agrees to accord all facilities for the right-of-way without taxes or transportation claims

being imposed for the passage of such oil. An indemnity, however, will be due the land-owners for the area so occupied.

"France will also accord facilities in the terminal ports for the acquisition of property necessary for the erection of depots, railway tracks (switches), refineries, loading quays, etc. Oil exported through these installations is to be exempt from export and transit taxes. The necessary material for the construction of the pipe-lines, railways, refineries, and other installations is also to be free from all import and transportation taxes and claims.

"Should the said petroleum company wish to establish a pipe-line and a railway in the direction of the Persian Gulf, the British Government will use its good offices in order to facilitate similar facilities."[153]

One or more railways should be built for general development of the Near East, but must be constructed to carry supplies to Mosul oil fields if they are to be exploited on a large scale. France contends that the railroad, as the pipeline, should cross the French territory of Syria. Britain insists on the Palestine route, where the road will be a part of the grandiose scheme of the British chemical trust for exploitation of Dead Sea potash deposits and other Palestine natural resources.

The Americans are not yet taking decisive part in the pipe-line-railway controversy, but their distrust of British majority control of the joint concession is increasing. This distrust was partly responsible for the refusal of the Sinclair interests to join with Standard and others in entering Turkish Petroleum. Standard and Gulf, as a result of their experience in the company with the British, are now restive.

Open Anglo-American conflict is expected to begin when the "free" areas are opened far acquisition. Under the quasi-Open Door principle which the State Department forced into the Mosul settlement, Turkish Petroleum was allowed 24 blocks of land with a total area of about 192 square miles. The company was granted an exploration period for picking its 24 areas, after which remaining areas were to be thrown open

to free leasing competition. In that competition the Mosul Convention provides that Turkish Petroleum shall have an equal but not a favoured position.

American suspicions were inflamed in 1928 by reports that the British Government, through Sir Adam Ritchie, was pressing its puppet Iraq Government to postpone opening the "free" Mosul zones.

The earlier Anglo-American struggle for the entire field probably will be repeated in the conflict for these remaining areas. The British are believed to be tied by a secret agreement with the French to bid for the "free" blocks only through Turkish Petroleum. Standard and Gulf are not tied. They hope to capture and to control completely most of the remaining fields, in addition to their interest in Turkish Petroleum holdings. They believe American geologists and engineers are more clever than the British in finding and developing wells. If Rockefeller and Mellon companies do acquire much of the open Mosul area, the United States will be drawn deeper into the pipe-line and railway dispute.

Meanwhile the Standard-British competition elsewhere in the world is not lubricating their single experiment in cooperation. In Washington an opposition group headed by Mr. James W. Gerard, war-time Ambassador to Germany, uses the Mosul deal to block Senate ratification of the Lausanne Turco-American Treaty. Mr. Gerard charges the treaty was signed to permit American interests to "grab vast oil deposits."[154]

These charges against the State Department and two unnamed Cabinet officers were detailed at length but without complete documentation by Mr. Vahan Cardashian, attorney for the Delegation of the Armenian Republic, in an application for a Senate hearing and investigation. In his letter of March 24, 1928, to Senator Borah, he said if the Foreign Relations Committee failed to act favourably on his application he would request President Coolidge to present the American-Armenian

dispute to the The Hague Tribunal for adjudication. Cardashian's appeal follows in part:

"My dear Senator Borah: I have the honour to apply for a hearing before the Senate Committee on Foreign Relations, upon the Lausanne Treaty, and to submit herewith a partial brief in support of this petition:

"I charge that two members of the President's Cabinet bartered the Armenian case at the Lausanne Conference and conspired to effect the expulsion of nearly 1,000,000 Armenians from their ancestral homes, for a share in Mosul oil, and that they are now scheming to seize possession of the oil deposits in the deserted homes of their victims.

"I charge that these men and their confederates in this outrage have used and are now using the Department of State as their willing tool to carry out their infamous design; and that the Department of State, in an effort to cover up the tracks of those who have dictated its policy in this respect, has resorted to misrepresentation, intrigue and even terrorism, and has flooded the land with shameless and irresponsible propaganda. ...

"Under these clear circumstances, what, then, is the motive, the purpose behind the Turkish policy of the Department of State ?

"I charge that it is oil.

"An Administration which has surrendered legitimate American rights and then has had the impudence to fill the air with irrelevancies, wild insinuations and falsehoods to divert attention from its disgraceful policy; an Administration which has deliberately trampled upon the Constitution of the United States in its conduct of foreign relations--such an Administration, I charge, would not hesitate, and has not hesitated, to sell out the Armenian people and their homes for oil, in the interest of a privileged group. ...

"If for any reason the Senate Committee on Foreign Relations should be unable and unwilling to consider these wrongs inflicted upon a gallant people, I shall then request the President of the United States to submit the points at issue between the present Administration and Armenia, to the Permanent Tribunal of Arbitration at The Hague, for adjudication."[155]

In promising to present the matter to the Committee, Senator Borah replied: "Before I shall feel interested in this matter, I want something more than general statements. I want the names of the individuals, the nature of the corrupt bargain, or barter, the facts which you claim will sustain, and the names of the witnesses who will support your contention."

Senators say such an Armenian attack is so partisan and its simplification of involved foreign policy so extreme, it is not apt to get very far. The Senate has favoured the Lausanne Treaty by majority vote, and the two-thirds vote requisite for ratification seems only a matter of time.

More serious difficulties, however, are in prospect. The record of Britain in the Near East and the Middle East, and of the United States in Mexico, proves that diplomatic intervention, sometimes backed by military force, is the price of alien oil exploitation in foreign countries. Such an issue may become acute in Mosul because of the mixed population, the latent revolt against British Mandate power, and the exposed 700-mile pipe-line route across civil war territory.

In event of fighting, who is going to protect the American capital sunk in Mosul wells and Syrian or Palestine pipe-line? The chief British argument in the bitter dispute in which the State Department challenged the San Remo Agreement excluding Americans, was that Great Britain had fought for that land and the United States had not, and that Great Britain was prepared to protect it and the United States was not. But now, in blessing the compromise settlement by which some American companies got a minority share in the Turkish Petroleum concession, the

United States Government tacitly has undertaken to share responsibility of defending that valued though explosive property. This, at least, is the British understanding of the agreement. The State Department does defend with diplomacy and, if necessary, with threat of war, American oil interests in Mexico and the Caribbean. Will the American public, or the Senate, permit similar action by the United States in Mosul and Syria ? Probably not.

What then ? There would seem to be two possibilities. The State Department may trade American support for some British imperialist program in Europe or Asia. Or, in default of this, the British may defend Mosul alone, and then reassert their old claim to exploit Mosul alone. If Sir Henri has his way the Americans will be kicked out of Mosul soon rather than late.

146. Cf., Chaps. II, III. Also Earle, *supra*.

147. Moon, *supra*, p. 263.

148. Hughes, *supra*, p. 75.

149. Cf., Mohr, *supra*, pp. 185-196.

150. Date of concession, April 30, 1923. Cf., New York *Current History*, vol. 18, pp. 485-495.

151. Commerce Department, *Foreign Trade Notes*, March 24, 1928.

152. New York *Foreign Affairs*, July 1927.

153. Federal Trade Commission, *supra*, pp. 103-104.

154. New York *Times*, Dec. 18, 1927.

155. Washington *United States Daily*, April 11, 1928.

CHAPTER TEN
Wherein Sir Henri Fails to "Steal" the Stolen Oil

OVERSHADOWING all other oil conflicts at the moment is the British-American struggle for control of Russian resources. Those reserves are estimated the largest in the Eastern Hemisphere. For years Russian production surpassed all other countries except the United States, sometimes even exceeding American output.[156] Much international diplomacy since the war has turned on Russian oil.

Oil is the Soviet Government's bait for foreign recognition and credits. Oil explains much of Washington's anti-Russian policy, of Britain's recognition and later break with Moscow. In oil is written the British and German-Turk military campaigns in the Caucasus, the Allied interventions against the Soviets and support of puppet counter-revolutionary governments, and the international conferences at Genoa and The Hague. Russian oil is the cause of the latest and bitterest war between "Napoleon" Deterding and "King" John D.

From the beginning this Russian conflict has been more confused and disordered than in other countries. It has involved Soviet nationalization of the industry and consequent attempts at a capitalist united front against the Bolshevist "menace." Lines of combat have shifted rapidly. The Deterding and Rockefeller forces have joined in drives against the common "enemy" one day, and the next day turned to fight each other—while negotiating separately and secretly with Moscow. Adding to the confusion, have been forays of the American Sinclair interests against both Dutch-Shell and Standard.

Dutch-Shell had the advantage, or disadvantage, of owning Russian fields before the Communist Revolution. Standard sold large quantities in the north Russian market in Tsarist days, but had no producing units there. Sir Henri bought wells in the Caucasus, using Russian oil to challenge Standard's partial sales monopoly in Europe and Asia. Originally the fields had been Tsarist State-owned. Later, as they were

sold or leased to private companies, the State retained large restrictive powers and exacted production royalties sometimes running to 40 per cent. Russian Nobel interests were permitted to obtain larger holdings than foreigners, though the latter were allowed to come in to prevent Nobel monopoly control. By 1898 Russian production forged ahead of the United States into first place. Three years later Russia supplied 55 per cent of world output. Then she maintained second place until displaced by Mexico in the last decade. Now Russia is expected by many authorities to assume again the premier position in world production.

At the outbreak of the 1917 Revolution the British with $85,000,000 invested were the largest foreign producers there.[157] Dutch-Shell had $20,000,000 in the Baku field, besides large holdings in Grosni and Maikop. French capital, chiefly of the Rothschild interests, amounted to $25,000,000, and Belgian capital to $21,000,000. Standard (Vacuum and Standard of New York) has refining and marketing investments in that country.[158]

With collapse of the Tsarist regime and enforced peace between Germany and Soviet Russia, the Allies and Central Powers raced for the rich fields of the Caucasus. First, German-Turk forces occupied Baku, then a small British force came in, to be displaced by the Turks on the eve of the Armistice. When the Turks withdrew after the Armistice, the British re-occupied Baku—acting nominally for the Allies. British troops remained to guard the oil of the Caucasus for Dutch-Shell until July 1920. Earlier in that year, the Allied Supreme Council had recognized the anti-Soviet Republics of Georgia and Azerbaijhan, with the understanding that these Governments would favour British and French interests.

Washington refused to recognize the counter-revolutionary regimes. Not, of course, because of any American sympathy with the Soviets. For diplomatic and military reasons the United States was and is opposed to dismemberment of Russian territory. Also Standard, which

by this time was seeking Russian oil, opposed recognition of counter-revolutionary Caucasian governments allegedly under the thumb of Downing Street and Deterding. Since then the Caucasian émigré group, headed by M. Jordania, representing the defunct "White" Governments, has made repeated unsuccessful attempts to draw diplomatic recognition from Washington and money from Standard and other American interests.

While British troops were marching out of Baku in the spring of 1920 and the "Red" army marching in, Dutch-Shell and Standard were preparing for the bigger petroleum war to come. Two years had passed since Moscow nationalized the fields. The former Tsarist Russian owners of oil stock were peddling their shares of doubtful value. Sir Henri bought up the stock of the old "Independent" Russian companies. Before that, in 1912, he had purchased a large interest in the French Rothschild holdings in Baku. With his 1920 purchases of stock of nationalized companies, he became the largest "owner" of petroleum resources in the Caucasian-south Russian area. Hence the London Government's urge to negotiate with France the San Remo Agreement of April 1920, which aroused Washington to such vigorous protests. At San Remo the London and Paris Governments agreed:

"In the territories which belonged to the late Russian Empire, the two Governments will give their joint support to their respective nationals in their joint effort to obtain petroleum concessions and facilities to export, and to arrange the delivery of petroleum supplies."[159]

Standard was equally busy buying old shares in nationalized companies. In the early summer of 1920 Mr. Rockefeller's agents bought equal or controlling interest in the Nobel Baku properties.[160] Anglo-Persian later bought other Nobel shares. These Nobel properties before the war had 40 per cent of Baku production.

It will be observed that Mr. Deterding was placing his money on a better horse than was Mr. Rockefeller. Both bought questionable stock in nationalized companies. But Dutch-Shell bought from foreign property-

owners who had defined rights under international law and usage. Standard bought from the Russian Nobel interests, knowing presumably that any sovereign government has a right under international custom to dispose of property of its own nationals as it sees fit, and that no foreign government has a recognized right to interfere.

Downing Street and Mr. Deterding after San Remo began negotiating directly with the Soviet Government. The Anglo-Russian trade agreement resulted. During the months preceding the Genoa Conference, Dutch-Shell was trying to get a monopoly concession from Moscow. Sir Austen Chamberlain later admitted these Deterding negotiations were conducted with the knowledge of the British Government. This was the situation when Premier Lloyd George brought about the Genoa Conference in April 1922.[161]

At Genoa Russia refused demands of the capitalist Governments that she de-nationalize petroleum lands and equipment. She offered instead to share part of her fields with British, Americans, French, Italians, Belgians, and Germans on the basis of conditional foreign concessions. Sir Henri and Mr. Lloyd George were willing to waive the nationalization issue in favour of 99-year leases or concessions. This compromise was blocked by Standard, working indirectly through the State Department "observer" at the Conference and through the French and Belgians. The latter also held Nobel and other Tsarist oil shares. Sir Henri then formulated a proposal, provisionally accepted by M. Chicherin, under which Russian concessions would be apportioned on the basis of foreign holdings prior to the nationalization decree. This plan in effect would have given Dutch-Shell the major share and virtually excluded Standard.

That brought Washington into the negotiations directly. The American "observer," Ambassador Childs, issued a statement on rights of American property-holders, reasserting that the United States Government would recognize no settlement conflicting with the Open Door principle.[162] The French and Belgian delegations, under pressure

from the Franco-Belgian Syndicate of purchasers of Tsarist oil shares after Soviet nationalization, supported American opposition to the Deterding-Lloyd-George-Chicherin deal. By this time the Germans had signed a separate treaty with Moscow. But the Lloyd George plan for general diplomatic recognition of the Soviet Government was effectively blocked by Washington's action. This accomplished, the United States acting through the French delegation forced postponement of the property-rights discussion until a conference at The Hague the following month.

Handicapped by the Genoa failure and increasing diplomatic activity of the United States, the British Government and Dutch-Shell put forward at The Hague another settlement proposal. Under the new plan, as tentatively accepted by the Russians, Dutch-Shell was to receive a block concession of certain Russian fields with the obligation of settling claims of other foreign owners by sharing production or by purchase of such claims. The plan was sufficiently indefinite on moot points to permit the charge of Dutch-Shell monopoly control. Again, as at Genoa, the United States by unofficial representations wrecked the capitalist-Communist compromise.

Soon after the unsuccessful conference at The Hague, Standard drew Dutch-Shell and 16 other companies and organizations of owners of old Russian shares into an International Defence Committee at Paris in September 1922. Participants agreed to boycott Soviet oil until Moscow "rehabilitated on equal conditions to all interested parties their [oil] rights and properties." They also pledged themselves not to deal with the Russian Government except as a united group. They were to extend this boycott to include financial credits sought by Moscow. But the capitalist united front was soon broken.

Despite his boycott pledge, Sir Henri began dickering with the Bolshevists secretly. By March 1923 he had contracted for 70,000 tons of Russian oil and taken an option on another 100,000 tons.[163] At the same time he was negotiating for a monopoly concession in Baku.

Standard was also dealing secretly with Soviet representatives in Berlin and Moscow. Thereafter Russia was able easily to dispose of the surplus of her rapidly growing production. Moscow sold this surplus not only to Dutch-Shell, Standard, and private companies but even to the Governments and navies of Greece, Italy, France and Britain. So ended that capitalist united front against Russia.

While Dutch-Shell and Standard were jockeying for position in the Russian race, a dark horse appeared. This was Standard's chief American competitor, Mr. Harry F. Sinclair. Mr. Sinclair went in person to Moscow and the Caucasus. With him on part of the trip were ex-Secretary Fall, Mr. Archibald Roosevelt and other influential persons. The Sinclair official, Mr. Mason Day, remained in Moscow until he was rewarded with a contract. A provisional concession agreement was signed by him and Soviet representatives in November 1923, providing for a joint company to exploit the Grosni and Baku fields. Mr. Sinclair and the Government were to share equally in stock, management, and profits. The former promised to invest $115,000,000 in the joint company and to float in New York a $250,000,000 loan for Russia.

There was also an unwritten understanding that Mr. Sinclair, through his friends President Harding, Mr. Fall, and Cabinet officers, would obtain United States diplomatic recognition for Moscow. To be sure the Sinclair concession covered the fields claimed by Standard. But the Bolshevist statesmen decided that Mr. Fall for the moment had more power in Washington than Mr. Rockefeller. Even the clever M. Chicherin could not be expected to foresee that the Fall-Sinclair combine would soon hang itself.

Indeed Russia was staking more than the Caucasian fields on the power of the Fall-Sinclair partnership. Moscow had granted Mr. Sinclair also the Saghalin oil concession off Siberia, and was aiding him in north Persia.

The north Persia field covers five provinces. Mr. D 'Arcy neglected to appropriate them back in 1901 when he got the later Anglo-Persian

monopoly concession for the remaining five-sixths of Persia.[164] Geographically the northern provinces are almost a separate country, their natural outlet being through the Caucasus. Russia in this sense has "the power to veto any concession to the north Persian resources, for Moscow will assuredly not permit a concessionaire who is *persona non grata* to it to use Russian territory for transit purposes," Mr. Louis Fischer says in his *Oil Imperialism*.[165]

Since the St. Petersburg Agreement of 1907, in which the Tsarist and British Governments divided Persia into spheres of influence, Russia had held a favoured position in the northern provinces. The Russian citizen Akaky Khostaria in 1916 obtained through Tsarist influence a drilling concession in that area, which Persia cancelled after the Bolshevik Revolution. The United States Bureau of Mines rates the 500,000 square miles covered by this concession as richer in oil than south Persia. According to former Premier Dowleh of Persia, cancellation of the Khostaria concession as having been obtained under duress was suggested by the Moscow Government, carried out by the Persian Government and approved in writing by the British Government.[166]

Two years after this cancellation, Anglo-Persian bought from M. Khostaria his alleged "rights" to three and one-half of the five provinces.

British diplomacy changed thereafter in line with this transaction. The Soviet Government countered in February 1921 by signing a treaty with Persia not only renouncing all Russian exterritorial rights and concessions, but also prohibiting Persian sale of such returned concessions to other foreign owners without Russian consent.

While Moscow and London were manoeuvring around this oil concession as part of their larger game of political prestige in the Middle East, Standard slipped in and grasped the prize—for a moment. In the midst of Anglo-Persian and British Foreign Office protests against Persia's refusal to recognize the Tsarist-Khostaria claim, the Teheran Government was persuaded to give the Rockefeller interests a new 50-

year concession for the northern fields. To prevent extension of British power from southern to northern Persia, the Teheran Ministry wrote into the final contract that Standard could not share or transfer its right to other foreign interests. Meanwhile Mr. Sinclair was setting out on the north Persian trail. Both Russia and Great Britain protested the Standard concession. Moscow pointed to the provision of the Russo-Persian treaty obligating Persia to get Russia's consent before granting such a concession. Anglo-Persian accused Standard of accepting "stolen property."

Sometime later, when Sir John Cadman went to America to make the short-lived truce between the British and Rockefeller interests, it was agreed that Anglo-Persian and Standard should share the north Persian concession equally. With Moscow encouragement Persia objected to Standard sharing its acquired rights with Anglo-Persian and, instead, gave the concession to Mr. Sinclair.

Among the most remarkable of the many vivid exchanges between governments in the oil controversy in the last decade are those of Persia to the United States in the period 1921-24 in opposition to the concession claims of the temporary British-Standard alliance. In a diplomatic memorandum filled with hatred for Britain, the Persian Minister, Hussein Alai, wrote to the State Department on February 21, 1924:

"The Standard Oil Company of New Jersey did not show any inclination to meet the requirements of the law and made no proposals, but the Sinclair Consolidated Oil Corporation submitted terms following closely the conditions laid down in the oil law. The Standard manifesting no further interest in the concession, an agreement was consequently signed last December by the Government and the Sinclair representative in Teheran subject to the ratification of the Madjless, as the Sinclair Company was the only applicant in the field.

"Now that there is at last a prospect of the northern oil fields of Persia being developed under purely American auspices, the Standard Oil

Company of New Jersey advances certain claims on the basis of association with the Anglo-Persian Oil Company, Ltd., in the so-called Khostaria concessions.

"I need not repeat the arguments laid in detail before Your Excellency in my note of January 3, 1922, which to your judicial mind will, I am sure, carry conviction that these so-called concessions are null and void. If the Standard Oil Company believed it had acquired any valid rights under these alleged concessions by virtue of association with the Anglo-Persian Company, why did it continue for two years to negotiate for a new concession with the Persian Government? The negotiation indicates the doubtful sincerity of the claims now advanced by the Standard Oil Company.

"I cannot, therefore, but express surprise that a large American corporation should in these circumstances ally itself with a policy known by it to be repugnant to the Persian Nation and openly declare that it maintains its so-called rights under the Khoataria concessions and that it proposes to enforce them in defiance of the Persian Government.

"The Standard Oil made the mistake of yielding to the unwarranted contentions of the Anglo-Persian Oil Company. They were repeatedly warned by Mr. Shuster and myself of the strong feeling of suspicion inevitably entertained in Teheran, in view of past experiences, as to British motives and aims and of the decision of the Persian Government to stand on the firm ground of the invalidity of the alleged Khostaria concessions. In spite of this warning, the Standard Oil Company made their proposal of February, 1922, to exploit the five northern provinces in association with the Anglo-Persian Oil Company on a 50-50 basis.

"In view of the facts of the case and the known policies of my Government, Your Excellency will appreciate that the announced determination of the Standard Oil Company in association with the Anglo-Persian Company to enforce its rights under concessions which my Government regard as invalid cannot be carried out within Persian territory with my Government's approval. Should, however, the

Standard Oil Company of New Jersey, as an American concern, seek the assistance of the United States Government with a view to asserting its alleged rights in the north Persia oil fields, I, acting under instructions from my Government, beg you to take into consideration the history of this whole transaction as I have outlined it above; the association of the Standard Oil Company with a British concern, in which the British Government has a predominant influence, an association peculiarly distasteful to my Government, my Government's well-founded view that the concessions on which these companies base their rights are null and void, and also the earnest desire of Persia for American aid, free from foreign influences, in the development of her natural resources."[167]

Persia's grant to the Sinclair interests, dated December 1923, was a preliminary non-transferable concession, carrying a rider that the American company must obtain for the Teheran Government a $10,000,000 credit.

A Teheran mob six months later murdered Major Robert Imbrie, American Vice-Consul. The official explanation was that he enraged the natives by taking photographs of a holy place. Major Imbrie "was assassinated by a mob organized by financiers in the United States and England, who thought his influence might swing control of the Persian oil fields from the Shell group to an American syndicate in which the Sinclair group has the major interest," according to a New York *Herald-Tribune* Paris dispatch of September 27, 1924, quoting "Harold Spencer, for years British secret service agent in the Near East and graduate from Annapolis in 1911."

Mr. Sinclair, in addition to his concessions in the Caucasus and north Persia, also gathered to himself the much-disputed Soviet concession on the Island of Saghalin off Siberia. The latter grant had been held by a $5,250,000 British organization, the Saghalin Oilfields Company, which was drilling when the Great War began.

Tokio tried repeatedly during the war to get a foothold on the Siberian mainland and incidently to extend her control of South Saghalin

northward over the entire island. With the western world at war and Russia outlawed, Japan attempted in 1918 to occupy the Siberian coast as a third link in her Asiatic chain of Korea and South Manchuria.

When American diplomacy failed to prevent this Nipponese military expansion, President Wilson sent an American army to wage war in Siberia without the consent of the American Congress. The President was faced with the alternative of joining an Allied invasion of a friendly country to prevent territorial division of Russia, or of continuing America's non-intervention policy and losing control of a vital Far Eastern issue. Mr. Wilson chose the former. In sending troops the President denounced military intervention as "more likely to turn out to be a method of making use of Russia rather than to be a method of serving her."[168] Despite State Department protest, Japan sent 74,000 troops compared with 8,500 Americans. But later Washington was able to force Japanese evacuation of Siberia.

When Japan occupied North (Russian) Saghalin, a rich coal and oil area almost joining the Siberian mainland, the State Department announced the United States would not recognize claims growing out of that occupation. Nippon kept her army there, but at the Washington Arms Conference promised to evacuate North Saghalin whenever an "orderly" Russian Government settled with Japan for the Nikolaiev "massacre." Secretary of State Hughes expressed regret that Tokio chose such methods, and insisted on restoration to Russia of North Saghalin and its natural riches.

Moscow meantime had given Mr. Sinclair the North Saghalin oil concession. The preliminary Sinclair agreement was signed in May 1921, while Japan was holding and attempting to work those fields. Final approval of the contract was given in October 1923. The concession was monopolistic in character. Moscow hoped to obtain United States diplomatic recognition before 1927. The Sinclair contract was made conditional upon such recognition. Russia, moreover, expected as a result of this concession to an American company to

obtain profits and financial credits, besides inducing the Washington Government to farce Japanese evacuation of the territory.

Moscow disregarded Sir Henri's claim based on the Tsarist concession to the Saghalin Oilfields Company. The State Department remained discreetly silent about the Open Door, which had been shut by Russia in favour of Mr. Sinclair.

Then the crash in Washington. The Senate investigation exposed activities of the Fall-Sinclair-Doheny "gang" in grabbing the Teapot Dome and Elk Hills naval oil reserves in the United States. Ex-Secretary Fall was swept into the courts. Mr. Sinclair was trying to keep out of prison. He could no longer deliver credits and recognition for Moscow.

Cancellation of the Sinclair concessions in the Caucasus, in Saghalin, and in north Persia followed almost automatically. Teheran trailed the American Senate, charging Mr. Sinclair with attempting to bribe Persian officials, Moscow warned him it would revoke the Saghalin contract. Mr. Sinclair was ready to accept compromise proposals for joint Russian-Sinclair-Japanese exploitation of Saghalin, but Japan declined.

Russia promptly executed one of her many changes in foreign policy, switching back suddenly from a pro-American to a pro-Far Eastern policy. Following the Russo-Chinese treaty of May 1924, Moscow signed a treaty with Tokio in January 1925. This pact granted Japan extensive Saghalin coal and oil concessions for 40 to 50 years, in addition to equal rights with other foreigners for acquiring the remaining half of oil lands in the Russian part of the Island.

Russia formally cancelled the Sinclair Saghalin concession in May 1925, charging the company violated contract provisions by failure to exploit the fields. Former Secretary of State Lansing, as Sinclair attorney, argued that the Japanese occupation (*force majeure*), prevented development of wells. But the Moscow court upheld the Soviet Government. Thus Mr. Sinclair was finally kicked out of Saghalin, as

he had been ousted from Teapot Dome in the United States, by the courts. In one case the American navy was regaining oil reserves for its Pacific fleet. In the other, the Japanese navy was obtaining oil resources which would make its Pacific fleet for the first time a modern fighting unit for possible use against the American fleet. The Japanese army has evacuated North Saghalin, but the Japanese navy is represented in the Japanese company operating there.

Japanese production in that field was estimated at 48,000 tons during the first nine months of 1927, or about twice as much as in the corresponding period of 1926.[169] According to Japanese consular reports a production of about 80,000 tons was anticipated in 1928.[170] A pipe-line to the coast was built in 1927.

At the same time the Moscow Government is organizing a Saghalin oil trust to develop some of the Okha deposits not included in the Japanese grant. According to United States Department of Commerce reports: "Conditions for oil exploitation are favourable in Saghalin, and sales will be profitable because the fields are near the ocean and far from existing oil fields. The oil may be sold to Japan, China, and to Asiatic Russia, but the bulk will probably be sold abroad in order to get a supply of foreign money."[171] Nutovo, a second Saghalin field, with a lighter petroleum than the Okha district, is to be opened by the State Soviet organization. Russian production on Saghalin in 1927-28 was expected to be about 6,000 tons, with the Soviet program calling for 237,000 tons annually by 1931-32.

South Saghalin is Japanese territory. Tokio is exploiting the fields of this half of the Island, in addition to the wells of the Islands of Honshu and Hakkaido. There are also commercial deposits in Akita prefecture and Formosa, which ran up total Japanese production in 1927 to 1,700,000 barrels. But Japan is now depending chiefly upon its Russian concessions in North Saghalin, and upon Manchurian shale deposits, to achieve future domestic independence from Standard and foreign wholesalers.

The Tokio Government has prevented American companies from obtaining mineral and oil rights in Japanese territory. Standard has spent several million dollars prospecting in China and the Philippines without attaining commercial production. Hence the importance of North Saghalin as the only potentially large producing field on the mainland and islands of north-eastern Asia.

While the naval and industrial significance of the Moscow-Tokio Saghalin agreement is far-reaching, the political consequences are—what the future makes them. Mr. Louis Fischer says:[172]

"The Saghalin contract is thus not merely an indication of a spirit of trust and friendship between the two great Far Eastern Powers, but also in a way a guarantee against future trouble. ... It [Saghalin oil] is without a doubt an important component part of the mortar of the still imperfect Sino-Soviet-Japanese bloc." In support of this view Mr. Fischer quotes Admiral Nakasato and Mr. Kshahava, officials of the Japanese Saghalin corporation. The latter is represented as saying:

"This is the best stimulus for the formation by our countries, together with China, of a triple union which would play a decisive role in Far Eastern affairs. The establishment of such a trinity could not, of course, interfere with the various interests within the several nations. The realization of such an idea is already quite possible at the present moment."

Perhaps ! But the general opinion in diplomatic and military circles outside of Moscow and Tokio seems to be that Japanese economic penetration will probably parallel the Manchurian precedent, which has ended in Japanese economic and military hegemony of nominally independent Chinese territory. If North Saghalin coal and oil are exhausted within the 40-year lease period, Japan may conceivably withdraw—otherwise not. Certainly Moscow will never be able to cancel the Tokio lease as easily as she did the Sinclair contract.

Saghalin may thus become a flame between Russia and Japan instead of a lubricant for the desired Asiatic alliance. Meanwhile Saghalin, as the chief fuel source of the Japanese navy, is down on the war-plan maps of the Powers as a major point for defence or attack in any Pacific naval war of the future.

While Moscow was favouring the then powerful Sinclair interests, Great Britain with the help of France was making another effort to wrest the Caucasus from the Soviet Government. The method employed was the familiar one of supporting disaffected Georgian groups in a counter-revolution. If the rebellion were successful it would eliminate the Bolshevists's indirect control over north Persian oil, besides putting a puppet capitalist regime in power in the Baku-Grosni fields. Moscow suppressed this 1924 revolt. The Soviet commander, General Ordzhenekidze, captured documents purporting to show that the rebels received British-French funds.[173] Rebel proclamations had informed the populace French and British ships would land troops at Batum.

Two years later the same counter-revolutionists of the Caucasus sought help from the Washington Government. A resolution was introduced in Congress "for defraying the expenses incident to the appointment of a diplomatic representative to the National Republic of Georgia." At the congressional hearings,[174] it was testified that the "White" Georgian Government had continued its existence in Paris since being driven from the Caucasus by the Bolshevists in 1921. This Georgian "Government" was represented at the hearings by Dr. Vasili D. Dumbadze and by Mr. John A. Stuart of New York, chairman of the board of governors of the Washington-Sulgrave Institution, a British-American organization. Mr. Stuart was identified as connected with the Ajax Iron Company, producers of oil-drilling machinery. Mr. John Hays Hammond, Mr. Barron Collier, and other American promoters were listed as committee members of the Caucasian Society, supporting this recognition drive. But the State Department was convinced by this time of the relative permanence of Soviet rule in the Baku-Grosni oil fields, and its official frown withered the Georgian resolution in committee.

In the midst of abortive concession negotiations with British and American companies, and of these counter-revolutionary outbreaks supported by foreign interests, the Soviet Government rehabilitated the Caucasian fields and increased production. From 1924 the Soviet State oil trust became an important factor in the world market. In that year the Anglo-American Oil Company bought 250,000 tons of Russian petroleum.

Anglo-American was acting in this deal as agent for a group including Dutch-Shell, Standard of New Jersey, Vacuum, and Standard of New York. Dutch-Shell took half of the consignment. This co-operative buying by foreign companies was broken up when Sir Henri and Standard caught each other trying to deal separately with Moscow. Both were trying in 1925 to purchase on advance contract most or all of Russia's export production for several years in the future. Standard was acting on direct advice of its counsel, Mr. Charles Evans Hughes,[175] who as Secretary of State had insisted that Moscow could not be trusted to keep faith in any sort of capitalist transaction.

Standard set out early in 1926 to break the sales dominance of Dutch-Shell in the Mediterranean-Suez Canal region. This could be accomplished only with supplies from the nearby Caucasian fields. Dutch-Shell, foreseeing the danger, tried unsuccessfully to buy up the Russian surplus. The Standard company, Vacuum, obtained from the Russian Naphtha Syndicate in March 1926 an Egyptian consignment of 800,000 tons of crude oil and 100,000 tons of kerosene. This order was followed by another from Standard of New York for 500,000 tons of kerosene. Moscow agreed in these sales contracts not to compete with the Standard distributing organizations in the eastern Mediterranean area. Mr. Louis Fischer believes Standard of New Jersey at this time was trying secretly to get a concession for the Emba fields, which rank second only to those of Baku and Grosni.

At any rate Standard's publicity agencies suddenly stopped their long anti-Russian campaign and became actually pro-Russian. Mr. Ivy Lee,

Rockefeller "public relations adviser," now wrote a friendly book on Russia.[176]

Co-operation between Russia and Standard enraged Sir Henri. In the zigzag course of oil diplomacy since the war he had been accustomed to defeating Standard, and especially with Moscow. But latterly he had a Caucasian concession within his grasp several times, only to lose it, as he lost the Russian sales contracts to his American competitor. Worse, the Bolshevists were setting up a sales organization under Sir Henri's very nose, taking away his business in England of all places.

"Napoleon" decided to stop this. He chose the method he had learned from Mr. Rockefeller. He began a price-cutting war, figuring that poverty-stricken Russia could not possibly stand the strain. But Russian Oil Products Company matched him cut for cut. Soon Dutch-Shell with its larger turnover was losing millions of dollars. As a State company, the Russian organization could exist for a while without profits. But Deterding share-holders wanted to know why their dividends were falling.

Such was Sir Henri's extremity on the night of May 11, 1927. The next day his friends in control of the British Home Office made a sudden Government raid on the London headquarters of the Russian commercial agency, Arcos, Ltd. The alleged purpose of the raid was to find "stolen" British military documents. This would force a break in diplomatic relations. The military papers were not found, though certain alleged espionage records were "discovered" by the raiders—whether by design is not clear. Anyway, the purpose of breaking diplomatic relations was achieved.

By Sir Henri ? Many informed persons think so. A strong case against him has been drawn up by Francis Delaisi in *Foreign Affairs* (London), October and November 1927. Two facts stand out from the mystery. One, the British Foreign Office and Cabinet were not consulted in advance of the raid. Two, the night before the raid the Soviet Government had obtained a $50,000,000 credit from the great Midland

Bank of London, with the knowledge of the British Foreign Office. That credit had been sought for years by Moscow in every large money market of the world. It was to be about the biggest thing that could happen to Russia. Incidentally it would enable Russia to go on protecting herself against Sir Henri. Whoever caused the mystery raid knew such tactics supported by an inspired press campaign would force the British Premier and Foreign Minister to break with Moscow and force the Midland Bank to cancel the all-important loan.

"What is worrying a good many members of Parliament is the suspicion that we have been forced to take this very grave action at this juncture in order to justify an ill-timed raid on the Arcos offices, undertaken without due consideration, and without Cabinet authority," the London *Spectator* declared.[177] This attitude was voiced also by the Opposition leaders, Mr. Lloyd George and Mr. Clynes, in their questions to the Government in Parliament. Mr. Lloyd George proposed a Commission of Inquiry, which of course was blocked by the Tory Government. So the opportunity for a Deterding investigation passed.

The Russians charge that Sir Henri, a few months before the Arcos raid, destroyed an agreement between Russia and the British-American oil interests settling the old nationalization-compensation dispute. He insisted on a Dutch-Shell monopoly.

"Towards the end of the year [1926] negotiations were in progress concerning the marketing of Soviet oil in foreign countries, between representatives of the Soviet Oil Syndicate and representatives of the foreign oil interests," according to the official *Soviet Union Review* (Washington), November-December 1927. "Formulas were being worked out for the distribution of the Soviet product. In this connexion an agreement was reached, accepted by the foreign companies, covering 'compensation' for foreign claimants of Russian oil lands. The conferences broke up early in January 1927, when Sir Henri Deterding, representing Royal Dutch-Shell, insisted upon a monopoly of Soviet oil export and a limitation on Soviet exports of crude oil. Thereafter began

a campaign against the use of Soviet oil in England and a series of sharp attacks on the Soviet Union in a section of the British press. The situation was aggravated by irritation in certain circles in Britain over Nationalist successes in China. The attacks increased in intensity. In May came the Arcos raid and the breaking of relations by the Baldwin Government. In the summer the newspapers reported that Sir Henri Deterding and certain foreign associates were seeking a monopoly for oil distribution in France, where Soviet oil sales had made heavy gains in the past few years. Sir Henri Deterding's effort failed. Thereafter, in certain French newspapers, was started a heavy barrage of attacks against the Soviet Union, curiously similar to the attacks in the British press following Sir Henri's failure to secure a monopoly of Soviet oil export. The attacks spread. An announcement from Moscow that an agreement had virtually been reached for the funding of the Tsarist debts contracted in France seemed to stir the Die-Hards to more frantic efforts to break relations. In October [1927] the French Foreign Office requested the recall, as *persona non grata*, of Mr. Rakovsky, the Soviet Ambassador who had conducted the difficult debt negotiations for a long period. A new Soviet Ambassador has since been appointed.

"Thus after 10 years the economic and diplomatic blockades sporadically continue. There has been a revival throughout the world of slanderous and absurd stories about the Soviet Union. Sir Henri Deterding has recently launched in the United States a publicity campaign against the Soviet oil industry."

The Rockefeller interests took advantage of the break between Dutch-Shell and Moscow by filling larger orders for Russian products. In June 1927 Standard of New York bought 500,000 tons of fuel oil for its Near East market, to be delivered over a five-year period, and six months later ordered 360,000 tons more. Vacuum extended for three additional years its May 1926 contract with the Soviet Government. By January 1928 the contracts of the two companies called for 432,000 tons annually, on a progressive scale. This was about one-fourth of the total Soviet

export. Several more contracts in April 1928 increased the total Russian sales to Vacuum-Standard of New York to $10,000,000 a year.[178]

But long before that Sir Henri had been driven to new paroxysms of fury. "The time has come when the purchase of stolen goods from Russia should be treated in fact and in law precisely as the purchase of any other stolen goods," he declared. To which *The Outlook* (London) replied: "Both the British Government and the American authorities regard business in Russian oil as legitimate. ... The point is simply that the various companies have been trying to do each other in the eye. ... The sordid intrigue and competition is a grim enough business; the attempts to explain it in terms of morality and ethics is sheer hypocrisy. It is indecent and disgusting."[179]

Mr. Deterding succeeded in producing an apparent split in the Rockefeller forces. Standard of New Jersey issued public statements disclaiming that its hands were soiled by the so-called stolen goods. It neglected to mention that it had joined with Sir Henri and others in buying Soviet oil two years earlier. "The impression that the Standard Oil Company of New Jersey has any trade relationship with the Soviet Government is incorrect," the company announced on behalf of its president, Mr. W.C. Teagle. Referring to its negotiations with Moscow representatives, the company explained that "as the Soviet Government was unwilling to agree that private property rights should be thus recognized, negotiations terminated and have not since been resumed with the Standard Oil of New Jersey or any of its foreign subsidiaries."[180] Mr. G.P. Whaley, president of Vacuum, another Standard organization, plunged into the press controversy with a justification for dealing with Moscow.

"The Vacuum Oil Company believes that trade contracts with Russia will make for wholesome reconstruction, and, further, that it is only common sense to recognize that Russia is the economic source of supply for certain markets," according to Mr. Whaley. "An opportunity given to Russia to dispose of some of its surplus in its natural markets will

avoid such surplus being forced into competition with American products in markets where transportation costs are in favour of the United States. ... We expect in due course of time to negotiate for compensation covering the large values that were taken over at that time [of revolution] and to make satisfactory recovery, but this can be in time best adjusted without involving the question of either buying from or selling to Russia."[181]

To what extent the apparent division between the Standard companies is real, or how much is camouflage for the benefit of Dutch-Shell, is not clear. Certain price-fixing agreements between Standard of New Jersey and Dutch-Shell in central and western Europe may explain the former's desire to placate Sir Henri. Furthermore Standard of New Jersey does not need Russian oil as much as Standard of New York and Vacuum need it to compete with Dutch-Shell in the Near East market. In view of past dealings of Standard of New Jersey with Russia, and the fact that it and Standard of New York and Vacuum are all Rockefeller companies, the public does not take too seriously the much advertised "split" within the Standard organization over Russian policy.

It is considered significant that Mr. Charles F. Meyer, the official responsible for making the Soviet contracts and carrying the offensive against Dutch-Shell into India, in April 1928 was promoted to the presidency of Standard of New York.

Dr. Wilhelm Mautner of Amsterdam, who is generally recognized as one of the best informed Europeans on Dutch-Shell and Standard relations abroad, doubts very much that Standard of New Jersey is forming an actual alliance with Dutch-Shell against Vacuum-Standard of New York. Writing in the *Wirthschaftsdienst* August 26, 1927, he said:

"Still keener competition in harder times, because of the new agreements, is the threat that Sir Henri means to hurl at the Standard Oil Company of New York and the Vacuum Oil Company from beside the ruins of his boycott plans against the Russians. A scrutiny of the markets and their distribution among the Standard Oil concerns, as well

as the agreements of the New Jersey Company with Dutch Shell makes the matter clear, but at the same time shows the difficult task to be faced by Mr. Teagle for other reasons.

"For these markets, arranged somewhat schematically, are so distributed that the Vacuum Oil Company must reckon with strong competition in Europe, but need not fear a price war with Dutch-Shell in many other fields. The Standard Oil Company of New York, whose sales territory is the eastern Mediterranean and the Near, Middle, and Far East, must keenly compete there both with Dutch-Shell and the Russians, especially as these regions are about the only markets in which the Standard is active, outside of America. The Standard Oil Company of New York has to consider a future competition with Dutch-Shell and the Russians. It must also prepare for competition with the Dutch-Shell in many other fields. Besides, the Standard [N.J.] has certain, though perhaps not written, agreements with the Dutch-Shell concerning a satisfactory price policy in Europe, and a conflict would jeopardize an understanding reached after much labour.

"So there are many ties that bind Mr. Teagle to Dutch-Shell and he would not care to break them except when extremely necessary. But it is doubtful whether these ties are as strong as those which still bind his company to the concerns which he formerly directed, but which are now outwardly entirely independent. These same circles which own controlling capital interests in his Standard Oil Company of New Jersey are also predominant in the other large Standard Oil companies. A common Standard Oil policy, a distribution of the aims and tasks among the various companies has no doubt been the program up to the present day.

"What has been pointed out makes it clear that a struggle between the New Jersey Company on one side, and the New York and Vacuum Companies on the other, is not probable."

Dutch-Shell is hard hit. "I had no knowledge or even suspicion that Standard Oil Company after expulsion of Russians from England would

profit by the absence of buyers to make large contracts for five years to invade the British Indian market or to supplant American oil there," Sir Henri said in a press statement August 5, 1927. "My intention is to fight the matter to the bitter end, if necessary over the whole world, as we wish the public to know who caused this dishonest upset of the petroleum industry."[182]

In the Indian sales war to which Sir Henri refers, the British Government is directly involved through the interlocking connexion of its own company, Anglo-Persian, with the Burmah Oil Company. Burmah Oil and Dutch-Shell have merged their interests in India to fight Standard.

Standard of New York and Vacuum are inexpensively winning a market in this battle while Dutch-Shell and Burmah are losing heavily. The Rockefeller companies are buying cheap oil from Russia and other producers. Meanwhile the British allies take losses in both production and distribution. Despite general depression in oil stocks, Vacuum shares increased in value about 50 per cent in the six months following the Arcos raid. Its net profit in 1927 was $25,500,000. Largely as a result of its Soviet contracts, Vacuum in April 1928 paid a 100 per cent stock dividend and negotiated for control of the Medway Oil and Storage Company (London) to enter the English market with Russian oil against Dutch-Shell. In contrast, within a half-year of Arcos, Dutch-Shell had to borrow $80,000,000 in the New York market alone, besides reducing dividends. Burmah Oil was unable to pay its regular dividend in January 1928. The market value of its shares fell from 96 to 58 rupees in the last half of 1927.

Standard of New York on January 15, 1928, broke the traditional Rockefeller policy of silence. At last the public was given an inside view of the international oil war—of which diplomats and oil men are accustomed to deny the existence. The Standard statement follows:

"Standard Oil Company of New York has until now refrained from making any public comment upon the attacks directed against it by Sir Henri Deterding, chairman of the Royal Dutch-Shell Company, on

account of the purchases of Russian oil. These attacks have now assumed such a character, however, that it is considered by Standard Oil Company of New York that the public should have the facts.

"Standard Oil Company of New York had made purchases of Russian oil in conjunction with several other companies, including the Royal Dutch-Shell interests, for several years prior to 1926. In that year Sir Henri Deterding came to the conclusion that his companies would buy no more Russian oil. Standard Oil Company of New York was asked to refrain from further purchases, but saw no sound reason to comply with this suggestion.

"The long distance between the United States and India makes the cost of transport of oil from this country to the Indian markets a substantial item. If, therefore, Russian oil could be supplied to the Indian markets at a fair price, there was an obvious economy in shipping such oil from Black Sea ports by saving at least 5,000 miles of distance. As the Royal-Dutch had large production in Roumania, it was in position to be fairly independent of supplies of Russian oil, whereas, unless Standard Oil Company of New York was assured of products on a favourable basis in its south-eastern European markets and Asia Minor it would be involved in heavy losses.

"But before proceeding with additional purchases of Russian oil, Standard Oil Company of New York again reviewed the situation in the light of American policy. In July 7, 1920, Secretary of State Hughes had announced that it would be proper for American business men, at their own risk, to trade with Russia. The formal announcement of the State Department read: 'The restrictions which have heretofore stood in the way of trade and communication with Soviet Russia were today removed by action of the Department of State. Such of these restrictions, however, as pertained to the shipment of materials susceptible of immediate use for war purpose will, for the present at least, be maintained.'

"There were no other reservations in the statement, other than the statement that trading with Russia would be at the trader's risk. There was no suggestion by the State Department that trading with Russia was in any respect improper, and no subsequent modification has been made in State Department policy.

"Contracts were made in 1926 for purchase of a substantial amount of Russian petroleum over a period of years; Standard Oil Company of New York considers these contracts to be upon a favourable basis.

"It would appear that the views of Standard Oil Company of New York—i.e., that the problem of buying and selling Russian oil is a purely business proposition—are not only in accord with American policy but are also supported by the policy of the British Government, whose political relations with the Soviet are the same as those of the United States.

"The marketing of Russia petroleum in England is done by the Russian Oil Products Co., Ltd., known to be a Soviet-owned institution. On August 26, 1927, after the break between England and Russia, the British Government (through the Home Office) issued a statement, the main part of which was as follows: 'In view of certain inaccurate and misleading statements which have appeared in the press with reference to his decision requiring two of the directors of Messrs. The Russian Oil Products to leave the country, the Home Secretary wishes to make it plain that his decision involves no new departure in the policy of H.M. Government. As has been stated frequently, the Government desires to place no obstacle in the way of trade between this country and Russia so long as those conducting the trade do not indulge in propaganda or conduct contrary to the interests of this country. It is not the policy of the Government to terminate the activities of any Soviet trading organization which is engaged in trade to the benefit of this country and is not otherwise harmful.'

"Official figures indicate that while the importation of Russian gasoline into the United Kingdom for 1927 has fallen off as compared with 1926,

importations of kerosene into the United Kingdom were actually greater in 1927 than for the preceding year. Indeed, in 1927, England imported twice as much Russian kerosene as in 1925. The actual figures as reported by the British Custom House were as follows:

(Expressed in imperial gallons)

	Year 1925	Year 1926	Jan. 1, '27 to Dec. 7, '27
Motor spirits	33,485,014	55,110,882	39,951,539
Lubricat. Oil	4,588,733	4,963,336	6,754,377
Kerosene	15,771,605	35,444,044	34,137,540

“Prior to the arrangement being made between Standard Oil Company of New York and the Russians, the Royal Dutch-Shell Company had been seeking to obtain from the Soviet Government a monopoly for the sale of Russian petroleum products for a term of years, these negotiations having been carried on continuously from May to December, 1926, inclusive. The Royal Dutch-Shell Company had, indeed, actually purchased some 200,000 tons of Soviet Russia oil as far back as 1922.

“Standard Oil Company of New York had subsequently participated with the Royal Dutch-Shell Company in making additional purchases. When Sir Henri Deterding decided to make no more such purchases, and found that it was the purpose of Standard Oil Company of New York to go forward with the contracts it had made with the Russians, he issued a statement announcing his purpose to fight to the last ditch every effort of Standard Oil Company of New York to market Russian oil in India.

“That the considerations dictating the policy of the Royal Dutch-Shell Company were of a purely business character rather than having to do with any other phase of the subject, and that the Royal Dutch-Shell

interests were quite prepared to handle and sell Russian oil when, as, and if they could obtain that oil on terms satisfactory to themselves, is indicated by the fact that the Asiatic Petroleum Company, Ltd., a subsidiary of the Royal Dutch-Shell Company, imported the following quantities of Russian kerosene oil into India and Ceylon: During 1923 over 8,460,000 imperial gallons; during 1924 over 10,690,000 imperial gallons; during 1925 over 4,730,000 imperial gallons.

"Up to the end of 1927 Standard Oil Company of New York had imported into India a total of between 400,000 and 500,000 barrels, or 21,000,000 imperial gallons.

"In September 19, 1927, the New York representative of the Asiatic Petroleum Company, Ltd., which is the Royal Dutch-Shell's subsidiary in India, handling also the products of the Burmah Oil Company, the Royal Dutch-Shell pool supplying about 70 per cent of the oil used in India, notified Standard Oil Company of New York that the Royal Dutch-Shell interests would reduce prices on superior oil as soon as any more Russian oil arrived at Indian ports.

"No one familiar with conditions in India would seriously suggest that the importation of Russian oil or other foreign oil into India constituted a menace to the Indian or Burmah oil industry.

"That there was no surplus of Indian-produced oil to justify price cuts such as these is indicated in a pamphlet the Burmah Oil Company, Ltd., recently sent out, 'with the compliments of the directors' of the company—in which it is said: 'Indigenous production of kerosene never was and is not now either potentially or actually sufficient to meet the Indian demand for the product.'

"True to their promise, the Royal Dutch-Shell interests, on September 23, initiated the threatened reductions in India. An additional cut was made the following day. And a few days later the prices of all inferior grades of refined oil were reduced correspondingly.

"On November 4 last Royal Dutch-Shell agents were authorized to allow a 'secret rebate' on sales and on November 25 the company notified its agents that it would give an additional bonus for all increased deliveries of high grade oil over the corresponding periods in 1926.

"This kind of competition still continues. The cut prices in all cases were initiated by the Royal Dutch-Shell interests. They were not justified by economic considerations. Standard Oil Company of New York has met certain earlier reductions in order to hold its market position, but its prices are today higher than those being charged by its competitors. The significance of this price warfare will be realized when it is stated that this form of competition, if continued, will cost the Royal Dutch-Shell and Burmah Oil Companies approximately $12,750,000 a year and Standard Oil Company of New York approximately $4,000,000 a year.

"This price-cutting was conceived and organized and initiated by the Royal Dutch-Shell interests. Standard Oil Company of New York has followed it only insofar as seemed absolutely necessary to protect its market position. At no time has this company deliberately undercut the prices of its competitors or offered secret or other rebates to undermine the position of its competitors.

"Standard Oil Company of New York will continue to supply its markets effectively; it will carry out all contracts into which it has entered; and it will not be swerved in any manner from its clearly conceived policy by such desperate and destructive measures as are being followed in India, and threatened in other parts of the world."[183]

Sir Henri returned Standard's press attack. On January 18, 1928, the New York *Times* published the following formal statement and supplemental interview with Mr. Richard Airey, Dutch-Shell representative in New York:

"While Mr. Airey issued the statement over his own name, he announced that he was speaking for the Royal Dutch group, and it was

understood that he was doing so under authority cabled to him by Sir Henri. The statement follows:

"'The Standard Oil Company of New York's statement that they are taking a loss in India of $4,000,000 per annum, owing to substituting Russian oil for American oil, is a big penalty to pay for lack of foresight. The negotiations which they mention as having been carried on continuously from May to December, 1926, inclusive, had two objects: Firstly, to obtain compensation for the former owners of the Russian oil lands, which had been confiscated without compensation by the Soviet Government. Secondly, to prevent a demoralized market. If these negotiations had been successful the oil would have been shared with other companies and so insured a steady market. The question of compensation for the former owners was being seriously entertained, but the action of the Standard Oil Company of New York prevented its success as by their purchases relief was given to the Russian Soviets and they no longer had any reason to consider provision for the former owners. So long as the Standard Oil Company of New York was marketing American oil in India things went along as usual, but with the importation of Russian oil, which is described by Sir Henri Deterding as stolen goods, to substitute the American oil, the Royal Dutch-Shell group decided to try and prevent it being marketed and will continue to do so. I do not anticipate a price war in any other country, but this is entirely in the hands of the Standard Oil Company of New York. If they ship Russian stolen goods to any other country, the Royal Dutch-Shell group will fight it.'

"Mr. Airey said that up to this time the Standard of New York has been marketing only American oil in China and he saw no reason, under present circumstances, for a fight between the two organizations there. Should the Standard of New York begin using Russian oil there, however, the Royal Dutch will offer resistance, he indicated. The same course will be pursued in any other country in which the Standard of New York tries to market Russian oil.

"Mr. Airey denied reports that the Royal Dutch was preparing to retaliate against the Standard of New York in its American markets. There has been no recent extension of the markets of the Royal Dutch subsidiaries in this country, he said.

"The efforts to have the Russian Government compensate former owners of the oil properties seized were frustrated by the Standard of New York, in the opinion of the Royal Dutch interests. Mr. Airey said he understood the Soviet Government at one time was willing to arrange some plan of compensation.

"He said he did not know whether it was true that the Soviets, in their contracts with the Standard of New York and the Vacuum Oil Company, had agreed to set aside a portion of the proceeds of the sale of oil as a fund to be used eventually in the settlement of the claims of the former owners of oil properties in Russia. It has been reported from time to time that such an agreement was made."

In this bitter dispute between Dutch-Shell and Vacuum-Standard the American press in the main supported the latter. Here are some of the reasons:[184]

"The policy of the Vacuum is defended by its president, G.P. Whaley, on the ground that it is not 'more unrighteous to buy from Russia than to sell to it.' He seems to have the better of the argument. No one objected when the Russian Government exchanged some of the confiscated jewelry of the nobility for cash and then bought American farm implements. No one objects when Russia places a big order here for American cotton, or even thinks of inquiring where the money came from. If we are to be consistent, no middle ground is possible. We must either place an absolute embargo on Russian trade or else we must recognize de facto ownership and let the reparation for confiscated property await Russia's return to economic sanity." New York *World*, July 27, 1927.

"There seems to be no cogent reason why American public opinion should force American oil companies to forgo their only chance of business in the Near East (and leave this business to Sir Henri's Royal Dutch-Shell companies) for the sake of compelling the Russian Government to return Sir Henri's property to him in just the way Sir Henri wants it returned." New York *American*, August 6, 1927.

"One reason why some of the students of the oil situation cannot believe that the Dutch-Shell group and the New Jersey company are guided only by the alleged unethical procedure in dealing with a nation which does not respect private property rights is the fact that both companies have been very anxious to get Russian oil." Washington *Star*, July 31, 1927.

"The head of the European oil combine has not been successful in his attempt to affix a stigma of immorality to all those who deal in Russian oil. He has only succeeded in exposing his own inconsistency in this matter. It now looks as if his statistical offensive would also collapse, if it has not already done so." New York *Journal of Commerce*, October 8, 1927.

"American buyers and friends here maintain their original position that, since the Soviets have oil to sell and are willing to dispose of it cheaply, somebody is bound to buy it. They consider it better to buy the product and regulate marketing than to leave it for the Russians to dump promiscuously in eastern markets." New York *Wall Street Journal*, July 20, 1927.

"Stupidly we boast of producing 70 to 80 per cent of all the oil consumed in the world, apparently utterly oblivious of the fact that the faster we sell our limited and fast-dwindling stores the quicker we 'will be at the mercy of every aggressor.' Standard Oil of New Jersey may be indignant because of the rumored oil deal with the Soviets, but Standard Oil of New York—a member of the same family—should be warmly congratulated if it is true, as stated, that it plans large purchases from Russia, however 'Red' or otherwise unorthodox the Russians may be." New York *Telegram*, July 29, 1927.

One of the amusing aspects of this situation was that the United States Shipping Board, at the height of Standard-Deterding competition and invective in the winter of 1927-28, ordered 24,000 tons from Standard for delivery to American Government vessels at Near East ports. The United States Government, which once carried its horror of dealing with Russia to the point of near-mania, now buys Russian oil. Incidentally the United States Government is thereby liable to suit in British courts by Sir Henri for receiving "stolen goods" allegedly owned by him through his possession of Tsarist stocks and bonds. The Shipping Board's excuse is that it got Standard-Russian oil for $10.95 a ton, while Sir Henri tried to charge the Board $13.66 a ton. That price gap shows what Russian oil means to Standard and Dutch-Shell in dollars and cents competition.

While fighting Standard, Sir Henri is not neglecting his direct war on Moscow. In addition to heavy holdings in Tsarist oil stocks at the time of the Genoa Conference, he was reported to have spent $30,000,000 from 1923 to 1927 in acquiring titles to other Russian oil properties nationalized. He therefore had an increasing financial stake in the overthrow of the Soviet Government. This was the situation when local and foreign press correspondents in Berlin connected Dutch-Shell with the so-called chervonetz forgery scandal.

"In order to clear up the chervonetz forgery scandal the Berlin police have asked permission of the German Government to search the local offices of the Royal Dutch-Shell Company," the Berlin correspondent of the New York *Times* reported November 22, 1927. "According to persistent rumors, the confidential agent of Sir Henri Deterding, president of the British petroleum concern, spent some time in Germany and was under suspicion as active in financing the counterfeiting scheme. Although the Foreign Office and the British Embassy declare that nothing will be kept from the public, it is an open secret that the police have orders to hush up the whole matter."[185]

Russia so far has not suffered from its quarrel with Dutch-Shell, except through loss of the Midland Bank loan and Great Britain's break in diplomatic relations.

While Great Britain estimates the decrease in England's oil imports from Russia at 60 per cent in 1927, Russia's world oil business rather has improved. In addition to sales contracts with Standard, Moscow has sales agreements with the Spanish oil consortium. Soviet statistics indicate Russia is supplying 49 per cent of Italy's oil consumption, 21 per cent of the French, 60 per cent of the Turkish, 16 per cent of the German, 15 per cent of the Belgian, and 4.4 per cent of the English import.[186] Russian oil exports in the fiscal year 1927 increased 115 per cent to France, 85 per cent to Egypt and India, 44 per cent to Germany and central Europe, and 25 per cent to Italy. According to the Soviet Union Information Bureau, Washington: "Soviet oil exports for the fiscal year ending September 30, 1927, amounted to 2,038,000 metric tons, breaking all Russian records. The previous high mark was 1,837,000 metric tons, back in 1904, before the decline in production under the old regime. Exports for the year were 123.4 per cent higher than those in 1913 and 38.4 higher than in 1925-26."[187]

There was a record production of 72,400,000 barrels in 1927, the output having doubled in four years. Russia now ranks second to the United States in world production, after displacing Mexico in second rank for the first time in 25 years. New drillings increased 30 per cent during 1927.

Estimates of M. Lomov, president of the Russian Naptha Syndicate, quoted by Mr. Louis Fischer, rate Russia's oil reserves as the largest in the world, or 8,000,000,000 barrels "alone in its richest oil regions, exclusive of Emba, exclusive of recently discovered oil lands, and exclusive of Turkestan."[188] The United States Geological Survey estimates Soviet oil reserves at approximately 6,755,000,000 barrels. This places Russia's resources above the estimate of the United States'

reserve of 5,500,000,000 barrels by the Coolidge Federal Oil Conservation Board.

With the rapid depletion of American reserves, and increasing demand for oil in peace and war pursuits, the future importance of Russian petroleum seems assured. Soviet equipment in the Caucasus has been modernized. In Baku 95 per cent of the wells are electrified, compared with 30 per cent pre-war. Under its sales contract, Standard is building a new refinery there. New pipe-lines are being constructed. In 1927 Russia put $95,000,000 of new capital into exploitation and plant. With larger capital investment the Baku and Grosni production can be increased, and many new fields developed. The latter include, besides Emba, the districts of Maikop, Chelekea, Gora, Derbent-Berekee, Kertch, Kakhetia, Uchta, and Izbekstan. Present Moscow policy aims at State retention of Baku and Grosni, with probable disposition of lesser fields to foreign concessionaires.

"Soviet oil men are playing a waiting game in the hope of holding large oil reserves for decades after America and other countries will have exhausted their own supplies," Mr. Frederick Kuh, United Press correspondent, wrote from Grosni November 25, 1927. "If successful, this policy would assure the Russians of one of the most valuable trump cards in the diplomatic gamble and economic struggle of the future. They are deliberately curtailing production in the Grosni fields. Were these oil wells and gushers allowed to work at full capacity, their output could be doubled immediately."

Russia frankly is trying to use her oil riches to obtain foreign capital. Despite increased Soviet production and export, the low oil market due to excessive world production has held Russia's profits to a minimum. Therefore petroleum has not freed Moscow from the necessity of seeking loans from abroad. This search has been unsuccessful so far. After collapse of the British Midland Bank credit, Moscow tried without results to get loans in Paris, Berlin, and New York. President Mitchell of the National City Bank of New York had secret conferences in Paris

in August 1927 with M. Rakovsky, before the latter was declared *persona non grata* as Soviet Ambassador to France. Though these negotiations were unfruitful, M. Rakovsky tried to use them to bolster his French loan negotiations. The French replied by ordering his expulsion. It was charged later that the French Secret Service had concealed a dictaphone in the Rakovsky-Mitchell conference room.

Since the Arcos raid and rupture in British relations Moscow has renewed its efforts to obtain loans in the United States. Such loan efforts are of course closely connected with general trade and concessions as well as with oil. Russia in the fiscal year 1927 placed orders in this country to the amount of $72,631,378, surpassing all previous records.[189] She is willing to increase such purchases if loans can be obtained. So far American bankers and manufactures have granted only short-term credits, raising the price of their goods in ratio to the time-length of the credits. As a part of its American drive, Moscow awarded to a Chicago firm a favorable Dnieper improvement contract, originally given the Germans. It also revised the Harriman manganese concession in Chiaturi to the advantage of the Americans. Losses of the Harriman enterprise, the only large American concession, made poor bait for other American concession capital. Harriman's losses were due in part to over-production and competition from the Soviet State Nikopol fields, whose output was marketed by a German agent. Under the 18-year amended contract of June 4, 1927, Harriman obtained a measure of control over total Russian production, involving reduced Nikopol output, and a lower production tax, though he is still dissatisfied.

Besides this more liberal concession policy, Moscow desires to place in America most of the orders which Arcos at the time of the raid was handling in England. Russian trade with Great Britain had risen in value from $30,000,000 in 1921 to $220,000,000 in 1925. Soviet imports from Great Britain during the fiscal year ending September 1927 — including three months of the post-Arcos slump—amounted to $76,000,000.[190] Russian-American total trade turnover in the fiscal year

1926-27 was given by Moscow as approximately $90,000,000. The United States Department of Commerce stated on January 9, 1928:

"Soviet purchases in the United States, since the Anglo-Russian break and the refusal of German firms to extend further long credits to Russia, have greatly increased; orders placed by the Amtorg in the 1926-27 fiscal year [October 1-September 30] were double those for the previous 12 months. Over 60 per cent of orders were for raw materials, semi-fabricates, and industrial equipment; another 25 per cent was for tractors and agricultural supplies. For 1928 this policy will be continued, with a still greater increase in orders to America promised, particularly for equipment for gold mining, hydro-electric development, and for other industrial machinery."

Russian-American trade fluctuates according to political and credit conditions elsewhere. "Despite handicaps inherent in the lack of a formal trade agreement between the two countries, the annual turnover, beginning with the Soviet fiscal year 1924-25, has been about double the prewar figure," the Soviet Union Information Bureau, Washington, points out: "In 1924-25 the turnover reached a high point of $118,000,000 of which American exports to the Soviet Union were $103,618,000. Thereafter, by establishing large trade credits under government auspices, Germany has succeeded in diverting a considerable amount of the Soviet purchases. The United States held second place on the Soviet trading list in 1924-25, but has since slipped to third position."[191]

The State Department in November 1927 liberalized to a very limited extent its Russian loan policy. Before that the Department had opposed everything but short-term secured credits. Then the Department said it had no objection to loans and long-term credits provided such money was used exclusively in payment for American goods ordered prior to the loan, and provided public sale of bonds was not necessary to float the loan. This policy was laid down in connexion with the Department's expression of disapproval of the proposed $40,000,000 Farquhar loan for

steel plant construction at Makeyeva in the Don coal and iron basin. Washington objected on the basis of reports that New York banks were to furnish the money but German companies were to get the material orders. Russia, in conformity with the new Washington policy, sent buyers to this country to obtain the Makeyeva materials. Later the Soviet Government rejected the Farquhar contract because of his inability to obtain funds on satisfactory terms.

In the autumn of 1927 Moscow attempted to float a $30,000,000 railroad bond issue, and about $100,000 of this paper was sold by mail in the United States. The Chase National Bank of New York, which had been extending short-term credits to Russia for several years for the purchase of cotton and machinery in this country, advertised that it would act as agent of the Moscow Government, paying interest to these American railroad bond holders. The New York Life Insurance Company and others protested to the State Department on the ground that they held Tsarist railroad bonds which they valued at about $20,000,000. The Department informed the "guilty" banks of its disapproval of their action, and on February 1, 1928, issued the following formal statement:

"The Department objects to financial arrangements involving the flotation of a loan in the United States or the employment of credit for the purpose of making an advance to the Soviet regime. In accordance with this policy, the Department does not view with favour financial arrangements designed to facilitate in any way the sale of Soviet bonds in the United States. The Department is confident that the banks and financial institutions will co-operate with the Government in carrying out this policy."[192]

The Department in all foreign loan matters exercises an extra-legal and much criticized function in advising banks. Though such advice is not binding it has never been disregarded by the bankers. The Chase National Bank was reported to have bowed to the Department's Russian ban. This, however, does not prevent Americans from continuing to buy such bonds and collecting interest directly through Moscow. Nor does

the Department's statement prevent banks from extending credits to Russia for purchase of American goods provided no cash goes to Russia and no public loan flotation is involved.

Discussing Russian relations in 1928, Secretary of State Kellogg argued that political non-recognition did not retard trade. He said:

"No result beneficial to the people of the United States or, indeed, to the people of Russia, would be attained by entering into relations with the present regime in Russia so long as the present rulers of Russia have not abandoned those avowed aims and known practices which are inconsistent with international friendship. ...

"As concerns commercial relations between the United States and Russia, it is the policy of the Government of the United States to place no obstacles in the way of the development of trade and commerce between the two countries, it being understood that individuals and corporations availing themselves of the opportunity to engage in such trade do so upon their own responsibility and at their own risk. The American Government has interposed no objection to the financing incidental to ordinary current commercial intercourse between the two countries, and does not object to banking arrangements necessary to finance contracts for the sale of American goods on long-term credits, provided the financing does not involve the sale of securities to the public. The American Government, however, views with disfavour the flotation of a loan in the United States or the employment of American credit for the purpose of making an advance to a regime which has repudiated the obligations of Russia to the United States and its citizens and confiscated the property of American citizens in Russia."[193]

Russia hopes ultimately to get a straight loan or cash advance in this country through Standard. Standard has its own banking facilities which would permit such a transaction on a private basis, without going into the open market and running foul of the State Department. But so far Standard has been unwilling to advance a large loan to Moscow until Russian-American relations are regularized by diplomatic recognition.

In the event of an oil shortage in this country Russia's resources will become a more important, though probably not a determining, diplomatic factor. That point has not been reached. But there has been some change. Washington policy is less emotional and more cynical. Formerly the United States would not discuss recognition with Russia largely because of fear.[194] Now recognition negotiations are postponed because of the belief that time weakens the position of Russia and strengthens the United States, leading to a crisis in which Moscow will seek recognition practically on Washington's terms. Washington thinks Russia must have large loans which cannot be obtained outside of this country. Some day the Communist dictators will have to compromise with the strongest capitalist government in the world, in the judgment of American officials.

There is little public pressure in this country for Russian recognition, not enough to outweigh opposition of the American Federation of Labour. Recognition is dependent upon Russia making a satisfactory deal with a few men in New York and Washington. Washington will insist that Moscow agree to prevent Communist International propaganda in this country, to recognize and fund the Kerensky debt to the United States Government, and to return or compensate for expropriated American private property.

The State Department is not now afraid of Communist propaganda and, unless Russian negotiations were held at a time of economic stress and labour unrest in this country, would probably be willing to accept in good faith the pledge of non-propaganda which Moscow is ready to give. Russian officials have expressed their willingness to negotiate funding of the Kerensky debt, which amounts to somewhat over $250,000,000 including interest. On the basis of the American-Italian debt funding settlement of 25 cents on the dollar with payments spread over 62 years, the Kerensky obligation is considered relatively unimportant. The "principle" involved in such a settlement is more important to Moscow because of the larger Russian debts to France and other countries. The "principle" rather than the cash is equally

important from the opposite angle of the United States as the world banker whose future depends on the sanctity of financial obligations. There remain expropriated property claims of Americans, which amount to more than $400,000,000. A mixed claims commission would require several years to consider and dispose of these cases. Russia now would insist upon presenting counter-claims growing out of United States military intervention in Siberia. But Washington hopes that Russia may be in such financial need before recognition negotiations begin, that the Bolshevists will not be able to force American settlement of counterclaims.

Recognition terms, therefore, apparently will depend on this race between Russia's need for outside capital, forcing Moscow to compromise, and on America's need for Russian oil.[195]

American dependence upon Russian oil in the future is perhaps overestimated by Moscow. It is true that Standard, as indicated by its Russian contracts, must have Caucasian petroleum if it is to compete successfully against Dutch-Shell in the Mediterranean-Suez area and in India. Moreover there are indications that Standard will use to the full its influence in Washington for Russian recognition, if this is necessary to turn the scales in the coming competition between Dutch-Shell and Standard for Russian concessions. But Russian oil contracts and concessions are not imperative from the standpoint of the Washington Government because of any anticipated depletion of American oil supplies. American officials look rather to Mexico, Colombia, and Venezuela in event of probable American shortage.

156. Cf., Appendix B.

157. Commerce Department, *Foreign Capital Investments in Russian Industries and Commerce*, M.S. No. 124. 1923.

158. Cf., Vacuum Oil Company statement, New York *Times*, July 22, 1927.

159. Federal Trade Commission, *supra*, pp. 103-104.

160. Cf., Standard Oil Company of New Jersey, Genoa Conference press statement quoted in New York *American*, July 29, 1927.

161. For fuller treatment of the Genoa and The Hague conferences, cf., Louis Fischer, *Oil Imperialism*, pp. 38 ff. 1926. Davenport and Cooke, *supra*, pp. 127 ff. Mohr, *supra*, pp. 93 ff.

162. New York *Times*, May 12, 1922.

163. London *Petroleum Times*, May 26, 1923.

164. Cf., Chap. II.

165. Fischer, *supra*, p. 209.

166. Letter to London *Times*, Dec. 26, 1921.

167. 68th Congress, 1st Session, Senate Document No. 97, pp. 113-116.

168. August 3, 1918.

169. Commerce Department, *Foreign Trade Notes*, Dec. 31, 1927.

170. New York *Times*, Nov. 21, 1927.

171. Commerce Department, *Foreign Trade Notes*, Oct. 8, 1927.

172. Fischer, *supra*, pp. 205-206.

173. United Press, Tiflis dispatch by Frederick Kuh, Oct. 4, 1924.

174. Cf., Washington *United States Daily*, April 6, 1926, for Georgian recognition resolution and hearings.

175. Cf., New York *American*, July 29, 1927: "It is said here in New York that Charles Evans Hughes advised the Standard of New York and Vacuum in their latest contracts for Russian oil. That ought to make them feel comfortable."—by Edwin J. Clapp. For this, and collection of other statements by the press, Standard companies, Sir Henri Deterding, and Soviet representatives, on purchases of Russian oils, cf., Amtorg Trading Corporation, New York, Soviet Oil Industry. 1927.

176. Ivy Lee, *U.S.S.R., A World Enigma*, 1927.

177. Boston *Living Age*, July 1, 1927.

178. New York *Times*, April 3, 1928.

179. Boston *Living Age*, Sept. 15, 1927.

180. New York *Current History*, September 1927.

181. Ibid., September 1927.

182. New York *Times*, Aug. 5, 1927.

183. Ibid., Jan. 16, 1928.

184. *Soviet Oil Industry, supra*.

185. New York *Times*, Nov. 23, 1927.

186. United Press, Baku dispatch by Frederick Kuh, Nov. 30, 1927.

187. Press release, Nov. 3, 1927.

188. Fischer, *supra*, p. 10.

189. *Soviet Oil Industry, supra*, p. 30.

190. Washington *Soviet Union Review*, January 1928.

191. Ibid., November-December 1928.

192. New York *Times*, Feb. 2, 1928.

193. Kellogg, *supra*, pp. 49-50.

194. Cf., Hughes, *supra*, pp. 35-45, for "Reasons Why United States Refused Recognition to Russia." Also, New York *Current History*, February 1926, for articles on Russian recognition by Leon Trotsky, E.M. House, Irving Bush et al. Also, American Trade Union Delegation Report, *Russia After Ten Years*. 1927.

195. Cf., Soviet Union Information Bureau, Washington, *Commercial Handbook of the U.S.S.R., 1927*, for Russian economic conditions.

CHAPTER ELEVEN
Getting Rid of the Spoils

ANGLO-AMERICAN sales conflict is not limited to the war for Eastern markets and Russian supplies, described so luridly by press statements of Standard and Sir Henri Deterding.

Sales competition exists in all world markets as the inevitable result of competition between the same companies for the world's producing fields.[196] Often it is easier to get the oil than to get rid of it. Within the last two or three years marketing problems have been more difficult than exploration or exploitation. This is due partly to overproduction, creating a glutted market and intensified sales competition. Of more lasting importance is the swing in non-producing countries toward restrictive marketing regulations and State distributing monopolies. Such restrictions or monopolies exist in some form in Spain, Italy, Russia, Poland, Turkey, Greece, Argentina, Australia, and are contemplated in France, Japan, China, Colombia, Chile, and Peru. This movement started in countries where American and British trusts gouged the local public, either through single private monopoly or by combining temporarily in price-fixing agreements. It spread to other countries, even to countries where British and American competition has benefitted native consumers. Apparently State monopoly control of gasoline and other petroleum products is part of the general tendency toward governmental regulation of industry, stimulated in this instance because the corporations affected are foreign-owned.

This new development cuts across the older and continuing Anglo-American competition either for retail trade or for wholesale contracts with State trusts. Such increased competition has forced greater distributional efficiency, narrower range of profits, and in many cases complete reorganization, involving establishment of refineries and treating plants in consuming countries.[197]

Solution of these increased marketing problems is especially important to American companies. United States domestic exports of crude oil and refined products amounted in 1926 to almost 124,000,000 barrels, 86 per cent more than in 1921. The value of these exports in 1926 was more than $554,000,000. The increase continues. For the first nine months of 1927 the total was almost 98,000,000 barrels compared with 92,000,000 barrels for the same period of 1926. Refined oils constitute the largest single group of United States manufactured exports. This country's production of refined products in 1926 exceeded any preceding year, gains ranging from one per cent in fuel oil to more than 15 per cent in gasoline. This increase was possible because of steadily rising domestic and foreign consumption. The United Kingdom took in 1926 almost 15,000,000 barrels of gasoline, an increase of 78 per cent. Cuba tripled her order. France, Holland, Scandinavian countries, Australia, and New Zealand imported more American "petrol."

What portion of these United States production and export totals represents output and shipments by American-owned companies, and how much by British companies operating in this country? Rough estimates give Dutch-Shell about one-tenth of the crude production here, compared with 3½ per cent in 1923.[198] No exact data are available, thanks to the secrecy under which the British trust operates in acquiring nominally American companies.

What is the relationship between United States export of manufactured petroleum products and of total sales by American companies, including their crude and treated products which do not go through this country? Accurate answers are unobtainable.

A monetary measure exists, however, which gives some idea of the extent of American capital interests involved in the international sales competition. Officials "conservatively" estimate marketing investments of American oil companies abroad, exclusive of producing capital, at $1,500,000,000. This $1,500,000,000 is a gauge of the interest of Standard and the State Department in alleged unfair conditions in the

marketing conflict, embracing both the competition with British companies and the foreign political movement toward State sales monopolies and expropriation of American plants.

After stressing the large amount of American capital investment involved, Mr. John H. Nelson, Department of Commerce, says: "It is perhaps needless to point out that the extended development abroad of nationalization, sales monopolies and refining capacity will seriously restrict, if not jeopardize, the continued profitable employment of a large portion of capital."[199]

These problems and attendant diplomatic disputes are expected to multiply with growth of foreign consumption. British petroleum imports, including those for re-export, amounted to almost 2,000,000,000 barrels during the first nine months of 1927, compared with less than 1,500,000,000 in the same period of 1925. In the first half of 1927 such German imports increased 25 per cent, and in Spain almost 35 per cent. Italian imports are increasing about 25 per cent a year.

There will be accelerated rise in foreign consumption with wider use of automobiles and oil-fuel ships. The ratio of oil-fired ships to total world merchant shipping tonnage increased from 2.65 per cent in 1914 to 28.37 per cent in 1927, while oil motor-ships increased from 0.47 per cent to 6.14 per cent, the Berlin Dresdner Bank estimates.[200]

In many countries "educational" campaigns are being carried on to demonstrate that the automobile—usually of American manufacture—is not a toy or luxury but an economy machine. American industrial prosperity and supremacy are shown in these campaigns to follow the upward curve of automobile sales here, the moral being that other countries can duplicate this process. With only six per cent of world population, the United States in 1927 had 80 per cent of the automobiles. The ratio of persons per automobile here was five, compared with 11 in Canada, 43 in the United Kingdom, 45 in Argentina, 46 in France, 196 in Germany, and 294 in Italy. But with world production increasing from 18,000,000 cars in 1924 to 28,000,000

in 1927, an increase of about 50 per cent, foreign consumption in the same period rose almost 200 per cent to a total of 6,000,000.

Larger gasoline consumption abroad precipitates disputes over refineries.[201] Standard and other producers are torn between three-fold conflicting demands to treat their crude product in established American plants, in the country of origin, like Venezuela, and in the consuming countries. Standard and Dutch-Shell hesitate to make heavy investments required to construct and operate manufacturing plants in countries where they fear revolutions or "Socialistic" legislation. Hence much Mexican oil has been refined outside that country, usually in the United States. In the case of Venezuelan production, Dutch-Shell has built its refineries in the neighbouring Dutch West Indies. American companies in Venezuela are shipping their raw product to this country, though Standard contemplates erecting plants either in the Dutch West Indies or in Venezuela, depending upon the kind of bargain the Caracas Government is willing to make. Often American and British trusts are "encouraged" to build treating plants in the consuming countries to escape a tariff differential fixed for that purpose. In other countries, as in Argentina and probably soon in Colombia and Peru, the State operates its own refineries, either under discriminating competition with American and British distributors or under a complete governmental monopoly. Sometimes the State prefers a joint arrangement for control of refineries with a foreign producing trust, as in the case of the Australian Government and Anglo-Persian.

Spain has gone the whole way.[202] In 1927 it established a marketing monopoly under Government auspices and seized American properties valued at $30,000,000. Washington and London made diplomatic representations. Over half of the expropriated property belongs to American companies, chiefly Standard. Dutch-Shell is the second largest owner. Standard and Dutch-Shell struggled for years for supremacy there. The Rockefeller trust was on top when the State intervened with its monopoly. Of the annual requirements of more than 2,000,000 barrels, Standard of New Jersey supplied about 50 per cent, in

addition to the business of Vacuum, a Standard subsidiary, and other American firms. Dutch-Shell had about 35 per cent. Well over half of the products sold there came from American and British supplies in the United States. These exports mounted in 1926 to almost $8,000,000. It was a trade worth fighting for. But in that year Moscow entered the Spanish market, selling wholesale to American, British, and Spanish distributing companies about 12 per cent of the total market demand.

Then the Madrid Government decided to take over the industry. Royal decrees in June and October 1927 gave exclusive monopoly for importation, storage, distribution, and sale of all oil products, to a consortium of 37 Spanish banks under Government auspices. Throughout the autumn the monopoly organization seized American and other foreign plants and installations, preparatory to taking over complete operation of the companies the first of the year 1928.

The State Department announced December 29 it was "watching the situation closely and has from time to time issued appropriate instructions to the American Embassy at Madrid to make representations in order to protect American oil properties in Spain. A telegram from the American Charge d'Affaires at Madrid, dated December 27, stated: `Interviewed the Premier yesterday and, at his suggestion, Minister of Finance. Seizures and compensations were fully discussed and appropriate representations made. Both Ministers gave assurances that valuation of property seized or products seized would begin immediately; that the entire industrial property of the companies involved will be directed by the monopoly; that interest payments will be made from the date of seizure and that compensations will follow as rapidly as possible. Both stated that it was the Government's intention to deal generously with expropriated interests.'"[203]

Standard and Dutch-Shell are using all their influence in an unsuccessful attempt to break the State monopoly. As soon as the "calamity" occurred, they summoned diplomatic reserves from London and Washington. But the British and United States Governments are

handicapped. Under international law, foreign governments cannot, or at least should not, interfere in the domestic affairs of another sovereign state. When this rule is broken the victim is a government which cannot defend itself or whose friendship is not desired by the larger Powers. Dictator de Rivera obviously was a person to be dealt with gently and with observance of due diplomatic form. The issue of discrimination could not be raised. Diplomatic representations by London and Washington, therefore, were limited to requests for Spanish assurances of equitable compensation for expropriated properties. The dispute now centres on this question. Properties are appraised by the companies at a much higher figure than the Government will pay. There is also disagreement regarding method of payment. Madrid intimates it might pay five per cent interest, pending amortization of the total debt. The companies insist on more. The companies also want to be reimbursed for their trade loss or intangible assets in addition to physical properties.

Fines up to 25,000 pesetas are provided by the Royal decree for obstruction of seizures. The Cabinet is empowered to impose heavier penalties in some cases. Ordinary legal redress for the companies is precluded by special processes provided for disposing of complaints and fixing compensations.

With establishment of the State trust, competition began for its wholesale contracts. Standard has not participated, as the Government anticipated, in this competition to get back indirectly the business lost to the State organization. Like governments, Standard's specific interests in one country often conflict with its larger interests in other countries. In such cases the company's international policy determines its tactics. If Standard were to compromise with the State monopoly and expropriation in Spain, other countries in which the American trust does business would be encouraged to follow the Spanish example. To keep its hands free to block such governmental measures elsewhere, Standard is now outlawing the Madrid trust. Standard's only remaining weapon is sabotage through its partial control of international credit, which in this instance probably will be insufficient. Dutch-Shell apparently is

following Standard's boycott tactics, though some of the unsuccessful British bids for a State contract indirectly may have represented the Deterding combine.

American independent companies and Russia got the State wholesale contracts in 1928. Reports conflict regarding the share of each. The Soviet Naphtha Syndicate announced it would supply 520,000 tons, or about 60 per cent of Spain's estimated consumption. The rest is furnished by the Petroleum Export Association of New York, subsidiary of American Republics Corporation, which claims 50 per cent.[204] According to the latter it has contracts for all of Madrid's crude oil and 25 per cent of refined products, running five years from January 1, 1928. The Petroleum Export Association represents small independent companies, who took advantage of relaxation of American anti-trust laws under the Webb-Pomerene Export Act to enter foreign trade in competition with the American and British trusts.

France for several years has been flirting with the idea of a State marketing monopoly. Standard as the chief sales organization there is affected. The situation is more complicated than in Spain. It is not limited to a sales problem. All of the international oil issues are involved: competition of French with British and American capital in foreign producing fields; French imperialist policy and requirements for continuance of French military hegemony over Europe; conflict between local and foreign marketing organizations in the domestic market; efforts of a strong Left party to establish a complete State monopoly for importing, treating, and selling all oil products; compromise measures by the Government involving discriminatory tariffs and taxes against foreign companies, State regulation of imports, and quasi-governmental participation in refining and distribution.

France has virtually excluded foreign exploiters from her own small producing fields and from her colonies. The Federal Trade Commission in 1923 stated: "It is not clear what the laws of France might provide regarding the matter of petroleum development in continental France or

the French colonies, but the evidence indicates that the grant of concessions is subject to the discretion of the Government, which would probably grant concessions only to companies at least 67 per cent French controlled. The commission was informed by the Sinclair Consolidated Oil Corporation that `in practice it has been found that France and the French colonies are more completely closed to development than in any other part of the world.'"[205] This exclusion is part of French military policy.

Before the Great War the Paris Government tried unsuccessfully to follow Great Britain's lead in assuring adequate supplies for use in the anticipated hostilities with Germany.[206] But French capital preferred the safer policy of distributing its investments in British, Russian and Roumanian companies rather than assume the risk of majority financial control and industrial management of an international producing trust. Besides this handicap, French marketing companies saddled their country with import restrictions and tariff differentials for the protection of a national pseudo-refining industry. French plants were not complete refineries. Therefore at the outbreak of the war France lacked refining and storage facilities as well as raw supplies and tanker transport. As a result the Government during the war was almost wholly dependent upon American wells, refineries and tankers. Several times, especially in the first years of the war, France was close to capitulation and defeat because of inadequate petrol supplies for her land and air forces, according to Premier Clemenceau.[207] This experience made France at the close of the war perhaps the most "oil-conscious" country in the world. Realization of the importance of oil in peace and war, which had grown gradually in Great Britain, and which was to come much later in the United States, was concentrated in France in the period of secret pacts during and after the war. French diplomacy in the early secret treaties with Great Britain acquired the Mosul fields. Later France's share was scaled down to 21.25 per cent by Great Britain, which took majority control.

The Paris Government was more successful in the oil fields of its military satellites, Poland and Roumania. French capital controls about 85 per cent of Poland's annual production of 5,800,000 barrels. Under the Franco-Polish agreement of 1922, the French-owned product has a privileged export status. French capital, in addition to heavy direct holdings in Roumania, controls indirectly most of the nominally Roumanian companies. Through her military alliance France obtains many intangible privileges in competition with Great Britain and the United States, in the Roumanian fields. This favouritism is important under the Roumanian nationalization law. Similarly in Czecho-Slovakia, France has used her power as political and military monitor to obtain shares in concessions previously promised to Standard.

The French Rothschild group had large holdings in Tsarist Russian fields.[208] After the Revolution and nationalization, Great Britain with superior military forces in the Near East was in a better position than France to seize the Caucasian oil districts. Because Bolshevist rule made future French operation of these fields exceedingly doubtful, and because the British through political-military dominance and petroleum strength of Dutch-Shell and Anglo-Persian had an advantage, the Rothschilds were glad to unload their Russian shares. Standard bought them. Minority French financial groups retained Tsarist oil shares, but these holdings were relatively unimportant. Hence France's only hope of getting supplies from Russia now is through purchase from the Soviet State trust.

Minor fields acquired by France from Germany in the war have increased French domestic production only to about 525,000 barrels, or seven per cent of the amount imported. The country thus remains dependent on foreign supplies. Most of these have been furnished by Standard, under a close working agreement with the Government.

Standard took this market away from Dutch-Shell and Anglo-Persian. Twenty-five years ago Standard dominated in France as in the entire world market. Then the two British companies won the French price

war, resulting from their challenge to Standard's supremacy there. In this earlier struggle Sir Henri sought financial support from the Paris Rothschilds. That was the origin of the minority French interest in Dutch-Shell which continues to this day. Standard recaptured the French market during the Great War. Dutch-Shell and Anglo-Persian wells and tankers were supplying the British navy. While Standard furnished French war supplies, it made governmental and commercial contacts and built up a distributing system which after the Armistice gave it a favoured position in the revived Anglo-American competition.

But all the while France was planning to liberate herself from the dominance in war and peace of either Standard or Dutch-Shell. Immediately following the Armistice the Paris Government formed the Compagnie Française des Pétroles, a combine of the French distributing organizations whose pre-war activities had hampered national defence plans. This loose native organization was to exploit exclusively all oil fields in France and future foreign acquisitions. The company is limited to French capital and its directors must be approved by the Paris Government. It receives preferential treatment in marketing, which in some instances forces Standard and other foreign sales trusts to operate with the national organization. A State institution was formed to supervise production and distribution.

To stimulate domestic alcohol production the Government requires petroleum importers to purchase fixed amounts of alcohol. This scheme for industrial national defence has met with difficulties, however, because of the Government's inability to supply stipulated amounts of alcohol. On the basis of 1926 imports companies should have received from the Government 106,000 tons of alcohol, while the amount available for this purpose was less than 23,000 tons.[209]

Despite these manifold efforts of the Paris Government, involving domestic monopoly control of production, diplomatic manoeuvres to acquire foreign producing fields, and State interference with foreign marketing organizations, France has made little headway toward

petroleum independence. She has been dependent upon Standard for fully 60 per cent of her supplies and upon the British for most of the remainder.

Out of this situation grew demands of the Left political bloc in 1926 for a complete State import and marketing monopoly, similar to that since established in Spain.[210] The proposal was approved in March 1926 by the Finance Committee of the Chamber of Deputies. M. Margaine, author of the measure, supported his argument with figures of alleged excessive prices extorted by Standard. The idea of the Finance Committee in approving the proposal was that the Government would make these profits for the almost empty French treasury, and at the same time obtain storage and distributing facilities essential for defence purposes.

Standard appealed to the Washington Government to head off the "Bolshevist menace" threatening American capital in capitalistic France. Washington made repeated informal diplomatic representations, and used against France its effective weapon of virtual credit boycott. France could not afford, in its impoverished condition and in its need for American political support in European diplomacy, to ignore Washington's desires. So for a while American oil company investments in France, amounting to $20,000,000, were safe.

Under the law of April 1926, the State was given control of petroleum imports, effective a year later. Details of the import monopoly were to be worked out in the interim. American pressure was partly responsible at the end of the year for a law postponing creation of the monopoly until January 1928. French companies and banks also increased their opposition. *Le Courrier des Pétroles*, organ of the native oil interests; led the protest campaign. It argued that the Government under the existing system was receiving more than 1,000,000 francs annually from oil tariffs and taxes, and that the allegedly infinitesimal additional revenue to be gained under the State monopoly system would not compensate for this loss and for the large capital investment necessary to

institute the new system. Less than six weeks before the monopoly was to become effective, Premier Poincaré under this local and foreign pressure proposed a compromise plan.

In the Chamber debate in the spring of 1928 Deputies Pioquemal and Margaine charged that the Government modified its original proposal on orders from the American companies and American Government. In its denial the French Government made these charges a question of confidence and was upheld by the Chamber, 318 to 202.[211]

The Poincare measure, or some modification of it, is expected to be enacted in 1928.[212] Though not entirely satisfactory to Standard, it is a relief from the spectre of complete Government monopoly spreading from Spain to France.

The bill provides for State control through a licensing system of all importation of petroleum and by-products. Licences for crude shall not exceed 15 years and for derivatives three years. The State shall participate directly or indirectly in organizations established to acquire storage reserves, which may be requisitioned by the State from foreign owners. Foreign importing companies, with an established trade before promulgation of the law, may obtain special licences running five years for annual imports equal to their pre-war imports. The Government shall have access to the importers's plants and accounts. Under the compromise measure the State expects to derive a maximum petroleum revenue with no direct commercial risk, at the same time building up a national storage reserve of 25,000,000 barrels and forcing construction within the country of refineries with a potential capacity equal to national consumption. The latter result is to be accomplished by an increase in general import duties, with counter-balancing decreases in interior taxes and privileged rates for products refined inside the country. This differential in favour of domestically refined products would amount to about 30 francs per 100 litres of gasoline.

American, British, and Soviet companies in 1928 were perfecting tactics for competition under the proposed restrictive arrangement. The Phillips

Petroleum Company, an independent American concern which is extending its production holdings from Oklahoma to Peru, negotiated with the Paris Government in 1927-28. Mr. Phillips appeared before a special committee of the Chamber of Deputies by request. This American Independent is anxious to extend its competition with Standard from the United States and Peru to France. Captain J.K. Robison, retired, is investigating the French field for the Petroleum Conversion Corporation of New York, a Franco-American syndicate.[213] This is the officer who attained notoriety while in charge of American naval oil reserves in permitting their transfer to Messrs. Sinclair and Doheny. The Soviet trust in October 1927 sold the French navy 33,000 tons of oil, its third contract of the kind within 18 months. Moscow at the same time was negotiating for wholesale contracts with French distributing companies. Russian oil was partly responsible for the decrease in 1927 of oil imports from the United States, which fell from 66 per cent to 56 per cent of the French total.

French hopes of escape from foreign-controlled petroleum supplies have been revived by the Mosul gushers, in which France through the Turkish Petroleum Company apportionment has 21.25 per cent interest. The Paris press publishes extravagant prophecies of French oil independence by 1930. The idea seems to be that the Mosul producing industry will be organized by that time, the long pipe-line to the sea completed, and supplies shipped directly to France in the still small French tanker fleet.

Other things being equal, France perhaps may attain a large measure of independence from Standard and Dutch-Shell, say, by 1935. This dream assumes, however, that the British with controlling interests in Turkish Petroleum, and the Americans whose minority interest equals the French, do not sabotage the Paris plan in order to retain their French market. France must hurdle political and financial obstacles if she is to acquire adequate tankers and refineries for her prospective Mosul oil. Aside from the great technical problems yet to be solved in exploiting the Mosul field and constructing the pipe-line, there remain the major disagreements among the British, Americans, and French within Turkish

Petroleum, regarding the pipe-line route or routes.[214] Until this dispute, involving the larger conflict of Franco-British political and military interests in the Near East, is settled, large scale Mosul production cannot materialize for France or anyone else. Great Britain, anxious to run the pipe-line through Palestine-British territory, has not agreed to the French-Syrian route, and probably will not unless she is bought off by France. Such eventualities may not prevent the old French dream of oil independence from coming true eventually, but they promise increased international diplomatic intrigue over Mosul in the interim.

Italy, like France and Spain, is without important domestic petroleum reserves. "In practice the Government has refused to grant concessions to aliens," according to the Federal Trade Commission report.[215] Premier Mussolini is watching the monopoly marketing experiment of his fellow dictator, General de Rivera. Already Italy has a semi-monopoly, somewhat different in form from either the Spanish or French plans. As in the other two countries, Standard is the largest distributor and hardest hit by State participation in the industry. Italy produces only 60,000 barrels, about two per cent of its annual consumption. Il Duce has been looking afield in Albania, where Anglo-Persian is drilling, and toward northern Africa, and the Near East for a larger Fascist empire including oil.

He has organized the Azienda Generale Italiana Petroli, a State-subsidized company. It operates as a "disciplinary" machine, regulating the markets by selling at cut rates. Within less than two years it lost about 500,000,000 lire, more than twice its original capital. Standard of New Jersey's subsidiary, Societa Italio Americana de Petroles, therefore tends to lose profits in competing with the State organization selling below cost and charging the loss to the national treasury. Fascist propaganda attempts to make the public purchase from the State firm as a matter of patriotism. The foreign competitor allegedly has exploited the Italian people for years. Signor Mussolini denies that his semi-monopoly scheme is intended to force Standard and British distributors out of business. But these companies consider the present arrangement

as a first effective step toward complete governmental monopoly, probably similar to the Spanish system.

The struggle between Standard and the British trusts for markets of eastern Europe, the Near East, and the Orient has been shifted, as we have seen, by Russian products. British companies have the advantage in these markets of nearer producing fields. Anglo-Persian has the south Persian monopoly, producing nearly 37,000,000 barrels annually and capable apparently of almost unlimited production. Dutch-Shell has its Dutch East India fields. Standard has only small holdings in the Roumanian field, less than the British there. Hence the importance of the Russian-Standard sales alliance. Russian supplies are enabling Standard for the first time to compete effectively with Sir Henri in eastern Europe, the Near East, and the Far East.

While in the Near East and Orient this competition narrows down to Standard and the British, in eastern Europe Russia contests the market with the other two.

The Soviet Naphtha Syndicate in its relations with France, Italy, and Spain sells directly to the naval ministries, to the State monopolies and pseudo-governmental organizations. In central and eastern Europe, as in England, the Russians operate directly. Russia continues to compete in England despite the vicious Deterding propaganda attacks and price war, and despite the break in diplomatic relations. In Germany the Russians in 1928 were negotiating with the Gallia Oil Sales Company for formation of a 10,000,000 mark firm to sell Baku products. In Sweden Russia is trying to challenge Standard's supremacy by selling at cut prices through the Nordiska Bensin Aktiebolaget. As a result Swedish gasoline prices in 1927 fell 30 per cent. Russian exports in the fiscal year 1926-27 to western Europe amounted to about 1,300,000 tons, compared with less than 500,000 tons to eastern Europe and the near East. These total Russian exports doubled the Tsarist exports of 1913.

There is Standard-Soviet competition in Czecho-Slovakia, which in 1926 used over 45,000 tons of Baku crude, compared with total imports

of 93,000 tons. In the Czech market Standard draws on its Roumanian wells. Standard subsidiary, Vacuum, has the advantage in the Czech gasoline market because of its refineries in that country and nearby Hungary, Vacuum Oil of Czecho-Slovakia is erecting new plants at Prerov and increasing its capital 30-fold to 60,000,000 crowns. Its 1926 profits exceeded 300 per cent on capital investment. In 1928 Moscow closed advance contracts in Prague for 100,000 tons of crude, in addition to smaller contracts for gasoline and refined products.

Ramifications of Russia's extensive direct and indirect foreign marketing system are shown in the following official statement:

"The [Soviet] Oil Syndicate sells oil products both in the domestic and world markets through its offices and direct representatives. Besides, it is connected with a number of foreign companies, through which it sells its products. Such companies, the shares of which are in a large part owned by the Oil Syndicate, are Derunaft in Germany, Societe des Produits du Napthe Russe in France and Russian Oil Products, Ltd., in England and in the British colonies.

"The Oil Syndicate and the foreign firms allied with it deliver petroleum products to foreign firms and government departments (for instance, the French and the Italian Ministries of the Navy), in many instances, on long-term contracts.

"Among the principal purchasers of Soviet Oil products are: The Vacuum Oil Company and the Standard Oil Company of New York, in the United States; Lubricating Fuel Oil Company, Ltd., Medway Oil and Refining Company, Independent Oil Distributing Company, in Great Britain; Petrofina Frangaise, Desmarais Freres, Petrol Block, Bigard Freres, in France; Purfina Belgo-Caucaisenne des Petroles, Societe d'Arments, in Belgium; Rotterdamsche Oli Import blaatschapij Rotol, in Holland; Deutsche Petroleum A.G., Benzolverband Reichskraftsprit, Oelwerke Schliemann, Mineraloelwerke Albrecht, Gallid, Eriag, Nitag, in Germany; Societa Nazionale Olii Minerali, Rafineria di Olii Minerali in Italy, and Banca Arnus in Spain."[216]

Poland is a declining competitor for the eastern European markets. In 1926 it sold Czecho-Slovakia 26,000 tons. Only about seven per cent of Poland's annual production of 5,800,000 barrels is American. The French-controlled Polish industry operates under a national combine system. An older federation was reorganized as a *cartel* in 1927 on a five-year basis. A central sales export organization is to be established under observation of officials appointed by the Warsaw Government. Prices and sales conditions for individual companies dealing directly with their own customers are to be fixed by the cartel. Disagreement between the Pilsudski dictatorship and this syndicate prevents the State-owned refinery from joining the *cartel*. Inclusion of the State organization, creating a more complete monopoly, will depend probably upon the syndicate's willingness to grant a larger measure of governmental control.

"The Polish oil industry, it is evident, is seriously concerned regarding the continuously decreasing output of crude oil, which, concurrently with increasing internal consumption, raises the question whether Poland, within a year or two, may cease to be an oil-exporting country," according to a 1928 report of the American Trade Commissioner in Warsaw.[217]

More important than the four-cornered competition among Polish-French, British, Standard, and Russian interests in the eastern European markets is the Standard-British conflict in the Near East and the Orient.[218] Standard purchase on long-term contract of Baku products has virtually eliminated Russia from the Near East trade, or rather has substituted Standard as the marketer of Russian oil in those regions where it is Great Britain's natural competitor. Thanks to the decline of Russian production under Tsarist inefficiency, subsequent slow rehabilitation during the revolutionary and counter-revolutionary periods, Caucasian oil had practically disappeared from the world market. By this default the British were given a virtual production and sales monopoly in the Near East for several years. This situation is largely responsible for the present dominant international commercial

position of the British trusts and their high profits, despite the costly competition with Standard in western Europe and the Americas. In challenging Great Britain's monopoly in the Near East, Standard is now with this Russian weapon striking at the very heart of the British trusts.

Domestic marketing in that area is insignificant compared with the struggle for producing fields and competition for fueling naval and merchant ships on the Suez Canal route. Among the domestic markets there are monopoly obstacles confronting Standard.

"In Greece the Anglo-Persian Oil Company (Ltd.) received from the Government an exclusive concession for all petroleum rights in eastern and western Macedonia for an exploration period of five years, with an option for a 50-year exploitation concession in certain districts," according to the Federal Trade Commission ?[219] Greece has a kerosene monopoly, and in 1928 was negotiating with Dutch-Shell for a British gasoline monopoly. Close relationship between the Athens and London Governments gives Anglo-Persian and Dutch-Shell advantage over the New York company. The gasoline monopoly negotiations are said to turn on a promise by Sir Henri to float a highway development loan for Greece. While these conversations were going on, however, the Washington Government late in 1927 suddenly granted to Greece the unused balance of the post-war American reconstruction credit which had been withheld for several years. This may make Greece less dependent financially upon Dutch-Shell and more favourably disposed toward Standard.

Semi-state monopoly in Turkey competes with Standard, chief foreign distributor there.

Standard and the British divide Palestine's market, which uses annually about 6,000,000 gallons of kerosene and 2,000,000 of gasoline. No petroleum is produced, though both British and Americans have carried on extensive explorations. After the Great War the London Government, holding Palestine as a Mandate, tried to prevent Standard from continuing geological examinations under concessionary rights

acquired before 1914. The State Department protested to London, the diplomatic argument continuing from 1921 to 1924.[220] London finally agreed to permit Standard to continue investigations providing its data were turned over to British authorities and on condition that the Government remain free to withhold concessions.

Farther east the American and British trusts compete in India, Australia, and China. American kerosene exports to China in the last 10 years amounted to $381,000,000. Australia virtually excludes foreign companies from exploiting its lands. State-subsidized exploration has failed to produce oil in commercial quantities. The State Commonwealth Oil Corporation in 1927 discontinued shale operations in New South Wales, explaining that world over-production necessitated temporary abandonment of otherwise profitable fields. The country therefore remains dependent upon imports, which were about 272,000,000 gallons in the fiscal year 1926-27.[221] British and American companies shared this business about equally, with Standard of New York a leading figure. Atlantic Refining, a Standard subsidiary, and Union Oil of California in 1928 extended their operations in that market. The Australian Government through Commonwealth Oil Refiners operates State-subsidized treating plants and sales organizations at financial loss. In New Zealand State railways in 1928 divided kerosene contracts between British and American trusts, the latter getting onethird. At the same time the gasoline tax was increased.

At the strategic gateway to India, the Ameer Amanullah of Afghanistan in fear of British penetration rejected London concession pleas and in February 1928 promised a 50-year exclusive concession for exploitation of the minerals and oil of his country to New York interests.

American and other foreign companies are prevented in effect from owning oil-producing properties in British India. The London Government has stated that “prospecting or mining leases have been in practice granted only to British subjects or to companies controlled by British subjects.”[222] This restriction extends to transfer of British

holdings to foreigners. Much attention was devoted to India, especially Burmah, by the Federal Trade Commission report of 1923. American consular dispatches describe the British Government policy there, regarding ownership and production, as "one of entire exclusiveness."[223] Standard of New York informed the State Department that it was not even allowed to purchase a warehouse in Burmah.[224] Twenty-five years ago the British Shell Company, before the Dutch-Shell combine and its close connexion with the British Government, was excluded from India on the strength of a rumour of combination between Shell and Standard. "The Indian Government of the day believed that this state of affairs existed, went to the assistance of the [British] Burmah Oil Company and put a duty on the importation of petroleum into British India, which created the first monopoly that was created in the oil trade," the Shell managing director explained to the British House of Commons later; "I admire the [British] Government of India for having protected that industry, and thereby being the means of creating a strong and powerful company."[225] Many times since that amusing instance Standard, Sinclair, and other American companies have tried unsuccessfully to obtain Indian lands.

The British "big three," Dutch-Shell, Anglo-Persian and Burmah Oil, the latter two interlocking in the Government-owned company, have those rich producing fields to themselves. "The Burmah Oil Company is partly owned by the Anglo-Persian Oil Company, in which the British Government is interested," the Federal Trade Commission pointed out in this connexion.[226] Burmah Oil and Dutch-Shell have now merged their interests to fight Standard.

Under the British conservation policy, India's production for 15 years has been held down to an annual rate of about 8,000,000 barrels. In 1927 production was reduced 500,000 barrels. The United States Geological Survey estimates Indian reserves at 1,000,000,000 barrels. Meanwhile India imports much of its supply for current consumption. These foreign supplies come chiefly from the British-owned fields in the Dutch East Indies and Persia, and smaller quantities from the United

States. In addition to the production monopoly, the British have had a virtual gasoline sales monopoly. American competition with the British until recently was limited to kerosene. Annual kerosene consumption is about 175,000,000 imperial gallons, the Americans supplying about one-third. But this competition now includes gasoline. Standard of New Jersey is importing from its new colonial field in the Dutch East Indies, which it obtained despite Deterding protests.

The Indian sales war is described in the words of the participants themselves in the preceding chapter. Chiefly with cheap Russian oil, Standard is attacking successfully the British stronghold. Sir Henri is resorting to tactics which saved him in his first struggle with Standard a quarter of a century ago. Then he federated and later merged Standard's small competitors, the Royal Dutch and Shell firms. Now he is bringing Burmah Oil, with its Anglo-Persian and British Government connexions, into his Dutch-Shell combine.

It is charged by persons usually well-informed that Sir Henri seeks control of Anglo-Persian and is taking advantage of the fall in Burmah stock to acquire that company, which owns 28 per cent of Anglo-Persian. He is also said to have obtained much of the 16 per cent bloc of Anglo-Persian stock held by the public, though the British Government's 56 per cent is still intact.

With the battle going against the British allied companies, Burmah Oil in March 1928 appealed to the Government of India for a tariff wall to shut out Standard. The Government appointed an inquiry board and may raise the requested barrier.[227] As the British Government is the Indian Government and as the British Government is directly connected through Anglo-Persian with the Burmah Oil Company, it would appear that the British Government is appealing to itself. It would appear further that this fight in the last analysis is between an American company and the British Government.

Dutch-Shell tried unsuccessfully in the spring of 1928 to make an Indian peace with Standard with the proposal that native (Dutch-Shell-Burmah)

production be apportioned 70 per cent of the kerosene sales market, the British and Standard to divide equally the remaining 30 per cent imported.

Compromise may be possible later if Sir Henri is willing, as Standard was willing 15 years ago in a similar struggle in China, to divide the Indian trade equally and hoist prices jointly. But at this point the Deterding commercial interests may conflict with British Empire policy. Officials watching the struggle think the London Government will not permit the American trust to extend its sway in that vital part of the Empire, unless there is a trade in which Great Britain gains elsewhere.

Much more than commercial oil supremacy and profits is involved in the Standard-British conflict in India and the Near East. There is the issue of British Imperial defence, of naval needs and trade routes of the Empire. Standard's partial alliance with Russia, its Turkish Petroleum Company shares, its prospective fields in the "free" Masul blocks and in north Persia, make the American trust an unwelcome power in that strategic region which Great Britain hitherto has dominated as by Divine Right.

This is the sequel to the London Government's concession drive toward the Panama Canal. America, in turn, heads toward the Suez Canal. It is not necessary to suppose that this retaliation is by State Department design. But it is apparent that Standard, invading the British Empire's eastern stronghold, will have the vigorous support of the Washington Government.

196. Unless otherwise credited, statistics in this chapter are from Commerce Department publications: Commerce Year Book, 1926, Commerce Reports, April 1927-April 1925; Foreign Trade Notes, September 1927-April 1928; *British Petroleum Trade in 1925; Petroleum Refinery Statistics, 1926.*

197. Tulsa *Oil and Gas Journal*, Supplement 1927, "Petroleum Refineries."

198. Federal Trade Commission, *supra*.

199. John H. Nelson, *The Economic Outlook for Exports of Petroleum Products*, p. 13; an address delivered by the Chief of the Petroleum Section, Commerce Department, to the American Institute of Mining and Metallurgical Engineers, February 1928, and published by that society.

200. London Petroleum *Times*, Nov. 26, 1927.

201. Cf., Tulsa *Oil and Gas Journal*, Dec. 29, 1927. *Petroleum Facts and Figures*, *supra*, pp. 167-180.

202. Cf., New York *Times*, Nov. 10, 1927, Jan. 1, 1928. *Wall Street Journal*, Jan. 13, 1928. Soviet Union Information Bureau, Washington, press release, Jan. 14, 1928.

203. New York *Times*, Dec. 30, 1927.

204. Ibid., Jan. 6, 1928. Soviet Union Information Bureau, Washington, press release, Jan. 14, 1928.

205. Federal Trade Commission, *supra*, p, xviii.

206. Cf., Francis Delaisi, Le Petrole, 1920, for earlier phases of French policy.

207. Cf., Chap. II.

208. Cf., Chap. X.

209. Commerce Department, Foreign Trade Notes, Nov. 19, 1927.

210. Cf., Paris Le Courrier des Petroles, periodical of the French industry, for current discussions.

211. New York *Times*, March 3, 7, 8, 1928.

212. A modification of the Poincare measure was passed by the French Parliament March 15, 1928, providing State control of imports of petroleum and derivatives. At the same time a companion law was enacted changing import duties and internal taxes on such products.

213. New York *Times*, Nov. 17, 1927.

214. Cf., Chap. IX.

215. Federal Trade Commission, *supra*, p. xxi.

216. Soviet Oil Industry, *supra*, 25-26.

217. Commerce Department, Commerce Reports, Feb. 27, 1928.

218. Cf., texts of Deterding and Standard statements, Chap. X.

219. Federal Trade Commission, *supra*, p. xxi.

220. Texts of 12 notes, Sept. 15, 1921-March 14, 1924, in 68th Congress, 1st Session, Senate Document No. 97, pp. 59 ff.

221. For Australia and New Zealand, cf., London *Petroleum Times*, Dec. 17, 1927. Commerce Department, Foreign Trade Notes, Oct. 8, Nov. 5, 19, 1927. New York *Times*, Nov. 10, 12, 1927.

222. Federal Trade Commission, *supra*, pp. xvii, 101.

223. Ibid., p. 43.

224. Ibid., pp. 40, 44.

225. Ibid., p. 43. Cf., London *Petroleum Review*, March 10, 1906.

226. Federal Trade Commission, *supra*, p. xvi.

227. New York *Times*, March 26, 1928.

CHAPTER TWELVE
Having No Oil Germany Invents Some

FROM fear of petroleum shortage comes search for substitutes, and the Anglo-American struggle to control such substitutes as rapidly as they are developed commercially. This fight centres in Germany.

For 20 years Germany has tried to free herself from the hold of foreign corporations, chiefly Standard. The Kaiser's military machine was inadequate because it lacked oil. This explains in part the German *Drang nach Osten* and Berlin-Bagdad policy which led up to the Great War. Germany planned to get, in addition to her small domestic reserves, the petroleum resources of Roumania, Anatolia, Mosul, north Persia, and the Caucasus. The Deutsche Bank in 1913 acquired minority interest with the British in the Turkish Petroleum Company, whose Mosul concession claim was based on the earlier German Bagdad railway concession.[228] Throughout the war the Kaiser's staff directed operations in eastern Europe and the Near East in conformity with the general foreign policy and immediate military necessity of acquiring foreign resources. Military defeat not only shattered this dream of oil empire but robbed the Fatherland of some of its small domestic fields.

Germany then sought to solve her problem in a manner unique, or rather characteristic of the Teutonic genius. Oil shortage during the war, an important factor in her ultimate military defeat, had mothered the invention of substitutes. The great German chemical industry and its scientists developed several processes for manufacturing synthetic gasoline. Since the war Germany has led in the further development of such substitutes.

The most valuable is the Bergius process for the commercial liquefaction of coal. Since Dr. Friedrich Bergius filed his first patents in 1913, he has been under the watchful eyes of the British Government and Mr. Deterding. Bergius, originally a man of wealth, was so impoverished by the post-war deflation that he was induced to accept

British capital in forming the International Bergin Company. Headquarters were established at The Hague, Sir Henri's old home. Later British capital obtained a footing in the German Bergin Company, which took over the inventor's experimental plant at Rheinau. Control of the patents was finally obtained by the German dye trust and a Ruhr coal combine. Dutch-Shell apparently was more interested in keeping Standard away from these valuable patents, than in developing them for itself.

In some manner not altogether clear Standard in 1927 made a deal with I.G. Farbenindustrie, the German dye trust, which resulted in reducing British holdings and giving the Rockefeller company certain interests in processes for synthetic production and for refining crude oi1.[229] This agreement and its significance is described by Dr. Wilhelm Mautner of Amsterdam as follows:

"Relations had been entered into with this company for over a year, namely, the 25 per cent participation of Standard Oil in the German Gasoline A.G., the sales organization selected for marketing the synthetic oil of the I.G. Besides, there were persistent rumours and reports of participation by Standard in processes of the I.G. for making synthetic motor oils, either by the Bergin method acquired by the I.G. or by that company's own process based on its experience with the Bergin. It was learned that the negotiations between the I.G. and Standard were progressing favourably and that Mr. Teagle [president of Standard of New Jersey] on his European trip [in 1927] was to put the finishing touches to this agreement. An understanding between the I.G. and Standard was really reached; however, the communiqué announcing this event, in spite of its intentional brevity and vagueness, left no doubt that the negotiations, insofar as they had resulted in an agreement, concerned something else besides the synthetic oil; namely, the working of the patents, especially as regards crude oil (we may even say, in the field of crude oil refining.) The communiqué reads as follows:

" `The negotiations in progress for some time between the Standard Oil Company of New Jersey and the I.G. Farbenindustrie A. G. have now ended with the agreement contemplated for co-operation in the United States in the mutual utilization of patents, namely, those concerning crude oil. At the same time, thorough discussions were carried on regarding co-operation in the other fields of common interest.'

"This means in any case that the utilization of crude oil patents is restricted to the United States only, and that the I.G. is therefore free to conduct negotiations with other interested concerns. But it also means that there exists not merely one, but many other fields of common interest. ...

"As regards processes for improved preparation of petroleum (by which is meant the preparation of heavy oils not well adapted for the usual refining method and hitherto handled by the cracking process), the public formerly knew nothing. It is claimed these processes have passed the laboratory stage and are now ready for large-scale experiments. These tests are to be made at Oppau. As we lack detailed information, we can at best make only conjectures as to the nature of these methods, and perhaps recall that for a long time Dr. Bergius, in addition to his oil-from-coal process, also busied himself with petroleum refining, and that there also resulted some points of contact between his experiments and those of the I.G. So far as we know, besides certain processes worked out by German scientists for refining and cracking oils, there was also a so-called Melamid method, which Stinnes acquired, and still another owned by the Dea and called very valuable by Dr. Bluemner. ...

"Surprise was expressed that Dutch-Shell was not named in all these negotiations, not even in those concerning refined oil production, although this concern possessed a 50 per cent interest in the Internationalen Bergin Compagnie voor Olie en Kolenchimie (I.B.C.), the company organized to utilize the Bergin patents in foreign countries, and a 25 per cent interest in the German Gasoline A.G. The fact that in the case of the coal liquefaction process of the I.G., the Bergin method

itself was not concerned, might be a good reason for this 'freeze-out.' But as the American announcements, which referred to an acquisition of the Bergin patents by Standard, were obviously made only because they confused the crude oil refining process with the synthetic oil process, and in the case of the latter did not distinguish between the process of the I.G, and the Bergin method, we cannot but believe the conjectures stirred up of an enmity between the I.G. and Dutch-Shell. ...

"But in this connexion we must call attention to other things. It will be recalled that in the summer of 1926, there were changes in the board of directors of the I.B.C., the Maatschapij voor Kolen en Olie Technik (Makot) and the Deutsche Bergin A.G. für Kohle und Erdoelchemie (Deberg), when the I.G. assumed control of the Bergin concerns and an English group acquired an interest. Whereas Dutch-Shell previously had four to eight votes in the board of directors of the I.B.C., it now has only three to ten. And as the capital of the I.B.C. was also changed . ... we are inclined to believe the recent report in a Dutch newspaper that there was a change of relations and a decrease in financial participation by Dutch-Shell in the I.B.C. ...

"As regards refined oil, sales agreements probably exist only in Germany, for there Dutch-Shell, Standard and I.G. are interested in the Deutsche Gasoline at the ratio of 25:25:50. ...

"From these new agreements, we must expect the same as from present understandings with Standard: no matter how great their material importance for the participants may be, this significance is not so great as the actual fact that such a far-reaching agreement is possible between the leading enterprise in America's largest industrial branch and the most important concern of the German chemical industry."[230]

I.G. Farbenindustrie in 1928 announced Bergius improvements increasing from 490 to 700 kilograms the amount of crude oil extracted from 1,000 kilograms of coal.[231] Though commercial development of this product may be slower than its inventor expects, Standard's success in breaking through the old Dutch-Shell barrier which surrounded the

Bergius and other German chemical trust patents may prove eventually more important than the Rockefeller connexions in Russia. This will depend largely on the rapidity with which the prospective shortage in natural petroleum develops in the United States.

In Germany, where such a shortage in mineral petroleum has always existed, the chemical trust expects under the Bergius and other oil-from-coal processes to produce by 1937 enough synthetic oil to meet Germany's estimated demands of 2,500,000 tons annually at that time.[232] Annual capacity of these plants in 1928 was estimated at 300,000 tons. Investments in the German plants are said to total $30,000,000, in addition to about $20,000,000 spent on experiments.

German chemical trust officials are convinced this synthetic product will be manufactured in the future by all countries lacking adequate natural petroleum supplies.[233] "Foreign countries with coal deposits but without petroleum will want the process at any cost, even where it is not commercially profitable in competition with petroleum," Dr. Karl Bosch, an I.G. director, said in a recent London interview.[234] "Hydrogenation of coal tomorrow will be regarded as essential to national defence as is the air-fixation process today. For national defence Great Britain above all will want to produce benzine from coal. The British navy will insist on having hydrogenation plants at home. In time of war there is always the risk of being cut off from this or that oil field."

Great Britain's present oil plight, despite all her post-war success in acquiring foreign producing fields, is described by Sir Thomas H. Holland, former president of the Institution of Petroleum Technologists, in the October 1927 Journal of that society. "The total consumption of petroleum products in the British Empire, however, amounts to about 10,000,000 to 11,000,000 tons, whilst its own output of crude oil is only about 3,000,000 tons," Sir Thomas points out. "Thus, the Empire is dependent on outside sources, not only for three-quarters of its normal requirements of petroleum products, but it has still insufficient refining

capacity, even if it could be sure of getting a sufficient supply of crude. ... It is important to remember that, in case of temporary isolation, even the Empire sources of crude oil may not be accessible. In any event, they would be quite insufficient even if they were available to the full, and thus the prospect of obtaining oil from materials other than crude free petroleum is one that is of special importance to Great Britain." But, as he goes on to say, "there seems little hope in the near future of turning our oil shale and torbanite to account in quantity sufficient and with commercial profit to meet the growing demand for the various products of oil."

Processes for obtaining motor fuel from coal are grouped by the United States Bureau of Mines in four classes: high-temperature carbonization of coal, including the gas and coke manufacturing industry; low-temperature carbonization of coal; hydrogenation and liquefaction of coal by the Bergius process; complete gasification of coal and conversion of the resulting gases by pressure synthesis into methanol, synthol, and other liquid combustibles. In addition to such processes, experiments are being carried on in several countries in utilization of agricultural products for production of motor fuels, including alcohol.

The oldest method of supplementing natural oil obtained from wells is extraction of petroleum from oil shale. For more than 75 years an oil shale industry has operated in Scotland, much of the time at a profit. This industry has suffered reverses latterly in competition with low-priced American and other well-oil in a period of over-production. Production from oil shale in Scotland was under 2,500,000 barrels for the peak year 1914, which is somewhat less than daily crude oil output in the United States in 1928. Shale-oil is produced in smaller quantities in France, Italy, Spain, Esthonia, and Australia.

The Coolidge Federal Oil Conservation Board has studied prospects for large scale shale-oil production in the United States to take the place of diminishing well-oil reserves. In commenting on the results of its investigations covering production of natural petroleum substitutes from

agricultural products, coal and lignite, as well as oil shale, the Board stated:

"Oil shale operations, in order to be profitable, doubtless will have to be conducted on a very large scale, involving a probable capital outlay of several million dollars for a single commercial plant. Unlike the oil industry, where a man with small capital by making a strike can often obtain a quick return of many times the capital invested, the oil shale industry is likely to be a large-scale manufacturing industry with a small profit per ton of material treated. Although the industry, when once established, will doubtless pay a fair return on the capital invested, it may be difficult to finance operations until the supply of crude oil is definitely on the decline or until the demand exceeds the supply over a period of years.

"Oil shale cannot be considered as an immediate source of oil, either for displacing oil from wells or for supplementing the production from wells, except to a very limited extent. It should be considered as an important oil reserve, to be drawn upon if and when conditions become such that operations can be conducted at a profit. In the meantime, however, experimental and development work might well be continued, so that when shale-oil is needed the information will be available as to the best methods to follow in retorting the shale and refining the shale-oil.

"Other important sources of oil are the coal and lignite deposits of this country. It has been estimated that the reserves of bituminous, sub-bituminous, and semi-bituminous coal in the United States, within 3,000 feet of the surface, amount to nearly 2,500,000,000,000 tons and would yield about 92,000,000,000 barrels of motor fuel. This is more than 300 times the production of motor fuel for the year 1927. It should not be considered, however, that all this coal could be made available at present prices, since some of the deposits are far removed from the railroads and in many places the beds are too thin or too deep to be worked under present conditions. It has been estimated that the lignite deposits of the

country amount to 940,000,000,000 tons capable of yielding 12,000,000,000 barrels of motor fuel. ...

"The possibility that coal will be the source first to be drawn upon for supplementing the petroleum supply leads this Board to unite with the Naval Oil Reserve Commission in recommending the creation of two reserves of coal available for this special purpose. ... The proposed reserves to be recommended for Executive withdrawal include some 4,000 acres of publicly owned coal deposits in Wyoming and Montana, with an estimated content of 250,000,000 tons of sub-bituminous coal from which 80,000,000 barrels of oil could be produced."[235]

Sir Henri Deterding is of the opinion that substitutes will not be able to compete with the natural product under normal conditions. His 1927 Dutch-Shell report, as summarized by the London Times, June 9, stated: "The question whether benzine obtained from coal may be able to compete with natural benzine is one of price. The conclusion arrived at is that the natural benzine distilled from crude oil must of itself continue to hold the advantage over synthetic benzine, and that, in those countries where no excessive taxes are levied and other uneconomical burdens do not bear down the oil industry, it will always be able to compete with success against the synthetic product."

Sir John Cadman in his inaugural address as chairman of Anglo-Persian on November 2, 1927, discussed the same subject. "In my opinion," he said, "very many years must elapse before natural petroleum resources will be unable to meet the greater part of the world's requirements. Of course, the time will eventually come when the world may have to look for a great part of its supplies from secondary and synthetic sources, but he would indeed be an optimist who imagined that—on the reaching of such a stage—prices would remain as low as those existing in the past."

Dr. Bergius claims he is producing his substitute at a cost of 90 marks a ton, and selling it for 165 marks. He argues that, with large scale production, natural petroleum prices must be cut in half to compete with "Bergin."[236]

228. Cf., Chap. II.

229. Cf., Boston *Living Age*, Sept 15, 1927.

230. Wirthschaftsdienst, Aug. 26, 1927.

231. New York *Wall Street Journal*, Nov. 30, 1927.

232. Cf., Commerce Department, Commerce Reports, April 16, 1928. Foreign Trade Notes, Oct. 8, 1927.

233. Cf., New York *Wall Street Journal*, Jan. 10, 1928, for efforts of German chemical trust to penetrate the United States and to form world combine.

234. Ibid., Jan. 14, 1928.

235. Second Report, Jan. 16, 1928.

236. Cf., Boston *Living Age*, March 1, 1927. Tulsa *Oil and Gas Journal*, Dec. 29, 1927.

CHAPTER THIRTEEN
The System Breaks Down in the U.S.A.

AN American oil shortage is near, according to the Coolidge Conservation Board. What we have left is being wasted by competitive and predatory private industry. The world fares better. Abroad are sufficient reserves for many decades. For half a century the world has come to us. Soon we shall be dependent in peace and war on foreign resources.

If there is anything more dangerous than speculation in oil stocks, it is speculation in oil statistics. But there is general expert agreement that foreign deposits are adequate to supply world demand for a long time. The most widely accepted estimate is still perhaps that of Dr. Eugene Stebinger of the United States Geological Survey, made in 1920 and revised in 1922.[237] After warning that all such figures are "highly speculative," he placed the world reserve at about 70,000,000,000 barrels. At the present rate of consumption that amount would last a century.

To what extent a future high-price element will tend to check the present rapid consumption rate and stimulate development of substitutes can only be guessed. Improvement in motor construction may compensate through economy of consumption for increased commercial use of oil. Another factor is the location of much of the world reserve in remote regions, where production and transport cost may raise the sale price to prohibitive heights. In some foreign fields the cost of drilling one well is $500,000, to which must be added the toll of extensive pipe-lines and long ocean haul.

Dr. Stebinger's estimate of world reserves follows:

Region	*Relative Value*	*Millions of Barrels*
United States and Alaska	1.00	7,000
Canada	.14	995
Mexico	.65	4,525
Northern South America, including Peru	.82	5,730
Southern South America, including Bolivia	.51	3,550
Algeria and Egypt	.13	925
Persia and Iraq	.83	5,820
S. E. Russia, S. W. Siberia, and Caucasus	.83	5,830
Roumania, Galicia, and western Europe	.16	1,135
Northern Russia and Saghalin	.13	925
Japan and Formosa	.18	1,235
China	.20	1,375
India	.14	995
East Indies	.43	3,015
Total	6.15	43,055

This total estimate of 1920 was increased two years later from 43,000,000,000 to 70,000,000,000, and should probably be increased more in 1928 in view of recent discoveries in Russia, Venezuela, Colombia, and elsewhere.

Dr. Stebinger's early estimate gave the United States about one-sixth of the total remaining world reserve. The inadequacy of this supply is apparent from Department of Commerce figures showing the United States in 1927 produced and consumed about 72 per cent of total world output. American production has always been disproportionate to world production. From 1880 to 1890 it was about twothirds of total world production, in the next two decades roughly one-half, and from 1910 to 1920 again about two-thirds. Up to 1923 this country had produced more than 62 per cent of the world total for the preceding half-century. While world production approximately doubled every decade during that period, the United States except at short intervals led in actual output and also in relative increase.[238]

Since Dr. Stebinger estimated the United States reserve at 7,000,000,000 barrels in 1920, discovery of new fields has failed to compensate for increased production. Geological Survey estimates used by the

Coolidge Conservation Board in 1926 placed the amount of reserves in proven sands recoverable by ordinary methods at 4,500,000,000 barrels. This supply would be exhausted, theoretically, by 1932 at the present rate of consumption. Hence the alarmist tone of the Board's report.

"There must be natural concern over our future supply of oil because of the manifest dependence of so large a part of our industrial life, national defence, and domestic comfort upon continued adequate supplies," according to the Board. "The total present reserves in pumping and flowing wells in the proven sands has been estimated at about 4,500,000,000 barrels, which is theoretically but six years' supply, though, of course, it cannot be extracted so quickly. Another addition to this natural cause of anxiety for future supplies lies in the fact that the maximum rate of production from all fields is in their early days before gas pressures which expel the oil are diminished, and thus of the current production more than one-half is coming from about four per cent of the producing wells—for the most part only a year or so old—and from fields that have been discovered within the past five years. Therefore future maintenance of even current supplies implies the constant discovery of new fields and the drilling of new wells, and thus the maintenance of this large ratio of flush production. Hitherto there has been no failure to discover such new fields as required. However, this dependence upon fortuitous discovery of new fields renders it imperative that every effort shall be made to secure the maximum amount of oil from the known fields and the most beneficial use of the oil that is produced.[239]

In appointing the Board, President Coolidge on December 19, 1924, had declared:

"I am advised that our current oil supply is kept up only by drilling many thousands of new wells each year and that the failure to bring in producing wells for a two-year period would slow down the wheels of industry and bring serious industrial depression. The problem of a future shortage in fuel and lubricating oil, not to mention gasoline, must

be avoided or our manufacturing productivity will be curtailed to an extent not easily calculated."[240]

Estimates of the Board and the Geological Survey fixing reserves in proven sands recoverable by ordinary methods at 4,500,000,000 barrels are not seriously contested by independent geologists, though some oil company estimates are higher. A "Committee of 11" of the American Petroleum Institute, quoted by the Institute's brief of 1926 to the Board, was more optimistic than the Geological Survey regarding the "1,000,000,000-acre reserve," covering lands in which no oil has been discovered yet. Mr. Henry L. Doherty, leader of the Institute's minority, warned the Board that the "Committee of 11" report, "in view of its gross inaccuracy, is like a poisoned well—exceedingly dangerous."[241] The Board decided that predictions that any appreciable amount of oil would be discovered in the "1,000,000,000-acre reserve" were unwarranted. "Certain parts of the country were known by the geologists to be impossible of appreciable oil production," the Board stated. "Such positively barren areas are estimated to aggregate 43 per cent of the total area of the United States. But this does not warrant the assumption that the remaining 1,100,000,000 acres of the country, or any large part of them, will be found oil-bearing. Considerable portions of this area have already been drilled for oil or water. It is a certainty that we are learning each year more of the geologic structure at the hands of a large body of public and private geologists, but the percentage of dry holes in new exploitation is increasing."[242]

The chief dispute regarding the extent of reserves centres rather around estimates of oil remaining in proven sands which is commercially recoverable by other than present exploitation methods. Estimates regarding this worked-over reserve vary from a ratio of two to eight barrels remaining in the ground for every barrel recovered by present commercial methods. Geological Survey figures show 9,000,000,000 barrels produced in this country up to 1926. This, added to the 4,500,000,000 barrels still recoverable by ordinary methods, would total 13,500,000,000 barrels. Using the minimum estimated ratio of two to

one, there would be an additional reserve of 26,000,000,000 barrels remaining in proven sands, which cannot be extracted with profit at present prices and with present methods. But the majority group of the Institute, in the brief presented to the Board in 1926, was much more optimistic. Their brief argued that oil remaining in proven sands not recoverable by ordinary methods is much more than 26,000,000,000 barrels, and that reworking of this "lost supply" will be commercially practicable in the future.[243]

This issue raises related questions of future improvement in exploitation methods, future price increases permitting increased production cost in recovering "lost" reserves, and the larger problem of inefficiency and waste in a competitive industry lacking governmental regulations. Waste of limited reserves under present exploitation methods was President Coolidge's incentive for naming four members of his Cabinet as a Conservation Board. In his letter of appointment, December 19, 1924, the President said : "It is evident that the present method of capturing our oil deposits is wasteful to an alarming degree in that it becomes impossible to conserve oil in the ground under our present leasing and royalty practices if a neighbouring owner or lessee desires to gain possession of his deposits."

The extent of basic inefficiency and waste in the American industry was demonstrated in 1927 when production was increased from 770,000,000 to 905,000,000 barrels. Despite glutted world markets and general over-production in most of their foreign fields, British and American companies in the United States were increasing output.

The paradox of the American capitalist system deliberately destroying profits is explained partly by Mr. Coolidge's reference to leasing and royalty practices in this country. In one field many companies, large and small, are operating. If one producer taps a subsoil pool, his neighbours must drill also before his wells drain the common deposit under the entire field. In a competitive field one producer cannot restrict production and conserve his supply except by joint agreement with the

other producers. In some cases, as in California and the Oklahoma Seminole field, limited cooperation in restricting production has been achieved among competing producers temporarily, under encouragement by the States. The Secretary of the Interior in 1928 asked Governors of 20 States to co-operate in obtaining uniform State and Federal conservation legislation. But the evil system remains.

This competitive system not only prevented American producers from restricting production to meet the glutted world market of 1927, but was directly responsible for the world's over-production. The situation was costly for the American nation which needs conservation. It was also costly for the American companies. With the drop in prices of crude and refined oil, ranging from 10 to 50 per cent, the companies lost profits. Mr. N.O. Fanning, in a financial study published in a special issue of the *Oil and Gas Journal*, December 1, 1927, found that:

"Over-production of crude oil in the United States has cut deeply into the profits of the petroleum industry. ... Lower prices have been offset only partially by increased sales, as shown by financial reports of oil companies for 1927 so far issued. Three outstanding indications of the unfavourable aspect of the oil business this year from a financial viewpoint are a decrease of $24,480,829, or 35.9 per cent, in net profits of 17 representative companies; a drop of $591,465,936, or about 24.2 per cent, in the market value of the securities of 20 representative oil companies whose stocks are listed on the New York Stock Exchange, and last, a flood of $360,888,035 new financing accomplished by petroleum companies so far this year." During 1927, 23 of the larger American companies reduced or eliminated regular dividends or extra payments. Net earnings of 14 representative companies show an average of 5.23 per cent in 1927, 10.59 per cent in 1926.[244] Net income of Standard of N.J. fell from $117,600,000 in 1926 to $40,400,000 in 1927; and Standard of N.Y. dropped 65 per cent to $11,400,000.

Contrasted to the waste of the American system is the British method in their fields, say, of India or the Dutch East Indies or south Persia. Of

course in those fields the absence of chaotic production is due to monopoly control. Sir John Cadman, who negotiated the San Remo pact to exclude Americans from major fields of eastern Europe and the Near East, emphasizes this contrast. In his 1927 Anglo-Persian report, he said:

"I would like to point out that, in some respects, the Persian oil industry enjoys a position which the Federal Conservation Board would like to give the American oil industry as a whole. Our royalty holders speak with one voice. The interests of those royalty holders are those of the industry itself; clearly it is in the interest of Persia as it is of this company that production should be steadily controlled—that is to say, steadily regulated in conformity with the world's demands; that the reserves of oil underground should not be extravagantly and uneconomically forced to the surface, regardless of the world's requirements. Fortunately we are not compelled to over-produce, which is often the case elsewhere—owing to the feverish rivalry of offsetting competitors. ... Further I might also mention that the improved yields and the economies we are constantly striving to introduce into all phases of our operations represent an important, if only partial, offset against the effect of over-production and uneconomic prices." Sir John also described the difficult problem confronting the United States: "How to conserve that country's oil reserves without stinting the present generation is, perhaps, the greatest and most complicated economic problem the United States authorities have ever been called upon to face."[245]

The Conservation Board in its 1926 report proposed that the United States Government and private companies solve the American problem as follows:

"The major part of the measures that must be taken to protect our future supplies must rest upon the normal commercial initiative of private enterprise. The field for governmental action is considerable, but to formulate the broader by-laws of the industry in the sense of

conservation and to concentrate thought upon them is the major part of the Board's task in co-operation with the industry.

"The directions in which industry can contribute to assured future supplies are: (1) Continued exploration for extension of known sands and deeper sands in known fields. (2) Continued exploration for new fields. (3) Systematic research and experiment upon methods of securing a larger proportion of the oil from the sands. (4) Systematic research and experiment in new methods and cheapened costs in refining and cracking oils and waste elimination. (5) Cooperative methods in sane development of new fields to prevent wasteful flush and over-production. (6) Research and application by engine builders of more economical use of petroleum products. (7) Expansion of American holdings in foreign oil fields.

"The contributions which the Government can make are considerable: (1) Continued and expanded research by the Geological Survey in geologic studies of the accumulation of oil and structure of oil-bearing areas; by the Bureau of Mines into methods of producing and refining-including oil shales; and by the Bureau of Standards into questions of constitution and utilization of oil products. (2) The more intelligent handling of Government-controlled oil sources on public and Indian lands.

"Of the fundamental conservation measures above mentioned, that of co-operative methods in development of new fields to prevent temporary gluts merits more exhaustive discussion, as it is a promising field for important action by both industry and the Government." vent wasteful flush and over-production. (6) Research and application by engine builders of more economical use of petroleum products. (7) Expansion of American holdings in foreign oil fields.[246]

As the Board indicated, certain measures may be taken by the Government without touching the larger issue of inefficiency and waste under private ownership. The Government has a direct responsibility regarding public lands, naval reserves, and Indian lands. "The

Government as the largest land-owner is committed to practical conservation of irreplaceable raw materials, by the protection of the public estate and the guidance of its development," according to the Board. "Especially is such an obligation sacred and inescapable as it concerns the great sources of energy, coal and petroleum deposits in Government ownership."[247] Secretary of the Interior Work in opening the Board hearings admitted: "The amount of petroleum now being taken from the public Indian lands represents one-tenth of this country's annual petroleum recapture [which] suggests that the Government itself is no negligible factor in the current production of petroleum." He added there were then outstanding 457 oil leases on Government lands.

Secretary Fall, Work's predecessor, in March 1922 ruled that Indian lands could not be leased to aliens. One of Mr. Fall's last official acts was to block an Osage Indian land lease of the Roxana Petroleum Corporation, a Dutch-Shell subsidiary. This action was in line with popular demands for retaliation against Dutch-Shell in connexion with the exclusion policy of the British and Dutch Governments, especially in the Djambi dispute in which Sir Henri Deterding had obtained a valuable concession at the expense of Standard.

Later the British interests forced a reversal of the Fall decision in the Roxana lease case. They capitalized Mr. Fall's guilt in the naval oil scandals, compared the alleged fairness of the Djambi lease with the corrupt Teapot Dome lease, charged the State Department with suppressing the Dutch official replies to the Djambi exclusion charges of the Department, and attacked the Federal Trade Commission report on "Foreign Ownership in the Petroleum Industry" for quoting "forged" British Government orders to bolster the contention that the London Government excluded American companies from India.[248] Secretary Work in May 1923 granted the Indian lease to Dutch-Shell.

But in his 1927 annual report Dr. Work recommended legislation giving his Department discretion in leasing and developing reserves in the Osage Indian Reservation in Oklahoma. "The Secretary is now required

to offer annually for leasing a large area of undeveloped oil lands, regardless of over-production or other market conditions," he said. "Such modification of law seems necessary if the Osage tribe is to obtain the greatest ultimate benefit from the oil resources of its reservation, and is also important as a measure of conservation."[249]

In addition to this Work recommendation regarding Indian lands, the Conservation Board in its second report of January 16, 1928, joined the Naval Oil Reserve Commission in recommending that the President create two reserves of coal, lignite, and shale: "The proposed reserves to be recommended for the executive withdrawal include some 4,000 acres of publicly owned coal deposits in Wyoming and Montana, with an estimated content of 250,000,000 tons of sub-bituminous coal from which 80,000,000 barrels of oil could be produced."

Adequate conservation of public lands, Indian lands, and naval reserves would leave untouched the wasteful depletion of the bulk of American oil supplies by privately owned and operated industry. Private industry during half a century, and especially during the recent years of over-production, has demonstrated its unwillingness or inability to correct the evil. Several excuses are given by the private companies. These range from a denial that oil reserves are being exhausted to charges that the Sherman Anti-Trust Law requires unrestricted competition and waste.

Conservation is a catch word used by politicians "to attract support for their attacks upon all large industrial organizations," the Standard of New Jersey declared in *The Lamp*, November 1927. It lamented that "the public has been led to believe, for example, that, if petroleum is not conserved, gasoline will reach a prohibitive price or will be wholly unobtainable. ... There will always be gasoline or at least equivalent motor fuel from shale or coal, of which our resources are relatively unlimited. If oil is exhausted, the price of this equivalent motor fuel will undoubtedly be higher than the average price which gasoline has carried, but this higher price will not be prohibitive nor in itself so high as to materially affect national prosperity by limiting the use of automobiles."

In reply to public attack on the industry, the companies are making a counter attack on the anti-trust laws. Typical arguments were published in a special issue of *The Oil and Gas Journal*, December 1927, and distributed among the press and public officials. This publication was entitled "The Oil Industry's Answer Today." Dr. L. Vernon Gibbs wrote under the heading "Oil Industry Must Have Moratorium—Relief From Mandate of Sherman Law Compelling Over-Production Needed to Curb Over-Production and Conserve Oil."

Granting that the anti-trust laws raise barriers to close co-operation of individual companies, it should be pointed out that four corporations including Standard handle more than 80 per cent of the crude and refined exports of this country. Despite the law Standard has continued the dominant factor in the industry. The Federal Trade Commission has found that the Standard group controls 58.9 per cent of the country's proven oil lands, having 79.4 per cent of the total oil investments, and receiving 74.9 per cent of the total earnings. Production of Standard companies accounts for 29.3 per cent of the crude output, 51.5 per cent of the gasoline, 61 per cent of kerosene, 50.7 per cent of the fuel oil, and 62.2 per cent of the lubricating oi1.[250]

The Senate Committee on Manufactures in its report in 1923 on "High Cost of Gasoline and other Petroleum Products" stated: "Through the Standard control of the pipelines connecting the producing centres of the west with the consuming centres of the east and middle west not only is the price fixed according to the will of the Standard group which any other interest must pay for the transportation of petroleum, but members of the group really determine whether any concern outside their group shall have petroleum transported at any price. The methods by which the Standard companies control the oil industry today are more subtle than those by which the Standard Oil Company of New Jersey, through its subsidiaries, controlled it prior to the dissolution decree in 1911. But the results are the same." The Federal Trade Commission in its report of December 12, 1927, stated it found no recent evidence among large

companies of agreements to fix prices. The report also denied common control of Standard companies.

If profits are a test, the "dissolution" of Standard under the Sherman Law of 1911 has been most advantageous to the trust. Annual cash dividends of the 23 Standard companies increased from $51,686,634 in 1912 to $213,760,695 in 1927, according to a Dow, Jones and Company compilation.[251] In that 16-year period since the law was enacted the 23 recognized Standard units, exclusive of other subsidiaries and holding companies, paid cash dividends amounting to $1,909,061,462. In addition they paid in that period $1,388,079,245 in stock dividends.

Perhaps the most significant contemporary development of the American oil industry in this period of over-production and disastrous losses for small operators is the process of consolidation by which Standard, Gulf, Texas, and Dutch-Shell extend their dominance over the country. With the anti-trust laws still on the statute books, the trade term used to describe this monopoly trend is "integration of properties."

The rapidity of this development, which is little realized by the public, is indicated by a *Wall Street Journal* survey from which the following excerpts are taken:

"Many interested in oil securities will remember 1927 as a year when profits were sharply reduced or eliminated; when dividends were reduced or passed, and the industry sold $440,000,000 new securities. To others, efforts toward conservation of petroleum resources in the United States may appeal as the outstanding development of 1927, Students of oil and executives alert to trade developments will give these events their measure of import. But more than likely they will go beyond these phases and record 1927 as the year big oil companies got much bigger. ... It is the further integration of these companies in all departments of oil to get as nearly as possible complete independence of others in the matter of source of supply of crude oil. The impelling motive behind these moves is that these companies have the bulk of their huge investments in refining and marketing facilities. It is to bulwark

these with the largest and cheapest cost supply of raw material that this group in 1927 has acted to strengthen their crude supply.

"In these steps some eight big oil units, four of them of the old Standard Oil group, have been outstanding in successfully centreing 1927 activities on building up their already large oil reserves and supplying transportation thereto. The following may be set down as those oil companies which went far in 1927 toward augmenting and rounding out the complete cycle in oil: Standard Oil of New Jersey, Royal Dutch-Shell, Gulf Oil, Standard Oil of Indiana, Standard Oil of California, Texas Company, Sinclair Consolidated, and Standard Oil of New York. In this process, integration has been carried to an unusual degree of completeness. Never since the days prior to dissolution of old Standard Oil of New Jersey has there been such concentration of effort by a relatively few oil companies, each separately owned and independently managed to get complete integration. And probably never has greater success accrued from such efforts."[252]

In addition to the open "integration," there is Standard's "buying for control" stock market operations by which it is acquiring the nominally "Independent" Sinclair companies. This has been going on for some time, but no outsider knows how complete Standard's control of Sinclair has become. The New York *Times* recently carried this story: "Wall Street heard yesterday that arrangements virtually had been completed for the transfer of the control of the Sinclair Consolidated Oil Corporation from Harry F. Sinclair and associates to other oil interests. The report was accompanied by a sharp advance in the Sinclair stock on the New York Stock Exchange. Closing at $28\frac{3}{8}$ the stock showed a net gain of 2¾ points. More than 300,000 shares changed hands. ... Yesterday it was said in well-informed circles that, as a result of the heavy accumulation of stock in the open market by other interests, Mr. Sinclair had been eliminated as the dominant factor in the company. ... The best information seems to be, however, that the Prairie Oil and Gas Company, a member of the old Standard Oil group, is to take over Sinclair, possibly with the idea of effecting a merger, and that the

Standard of Indiana is to acquire the 50 per cent stock interest which the Sinclair company holds in the Sinclair Crude Oil Purchasing Company. The Standard of Indiana already has the remaining 50 per cent interest in that company."[253]

Data on ownership in the Federal Trade Commission report of December 1927 reveal the extent to which Standard and the three other large companies within two years and a half acquired oil land reserves of the country:[254]

Company (Including subsidiaries)	Total Acreage		Proven
	June 30,1926	Acquired from 1/1/24–6/30/26	June 30, 1926
Standard of N. Y.	1,446,359	1,051,678	171,443
Standard of N. J.	3,295,305	2,820,279	74,678
Standard of Calif.	1,057,270	438,429	63,613
Standard of Ind.	333,250	252,952	16,234
Gulf Oil Corp.	2,696,845	2,185,597	150,740
Texas Company	1,892,760	1,049,791	32,082
Sinclair Consolidated	470,678	306,159	39,017
Shell Union Oil	1,665,402	1,352,643	41,395

Unity of certain nominally separate companies though sufficient for profits and control of pipe-line and tanker transportation, is not sufficient—according to the companies—to permit the system of general co-operative production required for conservation. The American Petroleum Institute at its 1927 annual convention could make no contribution to the conservation program of the Federal Board, except a resolution favouring "the enactment of laws to prevent the waste of such gas by the various oil-producing States in which natural gas is being unnecessarily wasted." Institute directors were unable to agree on the report of their Conservation Committee recommending to the companies themselves that "oil should be produced in such a way as to retain in the sand the maximum percentage of the original gas energy."[255]

Failure of private industry to meet conservation requirements has stimulated popular agitation for Federal Government intervention through regulation or, if necessary, control of the industry. The companies are spending much effort and money to block this

movement. The argument against Government interference is stated by Dr. Gibbs in the article referred to above, as follows:

"There are men in high position who declare that Federal control or operation is the only road to conservation; but Government control or operation under any bureaucratic system will not save depletion of the Nation's oil reserves or effect conservation-on the contrary, it would result in industrial stagnation, and exhaustion, without getting ready for the transition to the refining of oil from soft coals and oil shales. The only attempt of Congress to aid in perfecting a process for refining oil from shale is now rusting away in idleness on the western Colorado plateau owing to the failure of Congressional appropriation. It is more important for the industry to meet exhaustion of crude oil from wells with crude oil from shale and soft coal than it is important to save the loss of a few barrels of crude oil. The present over-supply is the result of adverse conditions converging at this time and forcing the industry into over-competition and over-production, but the resultant physical waste of oil has been exaggerated until the rabid discussion amounts to mild hysteria. ...

"It is the consensus of belief that Congress, by giving any board or bureau control over private property, would be committing our Government to an imperialistic design beyond the intent of the framers of the Constitution, and beyond the power granted Congress under the Constitution. ... It matters not what term is used to designate interference with private property by Government. It may be called regulation, control, supervision, or ownership—to go beyond the rights granted by the Constitution to the State in interfering with property rights is despotism. The road from mild despotism to Bolshevism runs in a straight line."[256]

In the same publication, *The Oil Industry's Answer Today*, Mr. J.E. Eaton, in an article entitled "Reserves of Nation Ample for Future," warned that "the oil industry is at present confronted with the question of Government control."

Opposition of the American Petroleum Institute to any form of governmental interference in the industry was expressed by its president, Mr. E.W. Clark, in reply to an invitation by Secretary of the Interior Work for the Institute to name three members of a "Committee of Nine" to consider possible conservation legislation. In naming three representatives Mr. Clark stated that the Institute did not wish such participation in the work of the Committee to be construed as a commitment to any legislation. Mr. Clark added that he could "not undertake to pass upon, still less accede to any suggestion that the Federal Government may directly regulate the production of crude oil in the several States, or that it should attempt to do so."[257]

The report of this "Committee of Nine," composed of three representatives each of the Institute, the Government, and the American Bar Association, was made public on February 5, 1928, by the Conservation Board which is considering its recommendations. Opposition to any change in the present law governing oil production was expressed by the Committee. But it urged that the anti-trust laws be amended in line with the demands of the companies.

"In our judgment, the only practical law governing the right to recover oil is that which now exists and which has been developed to meet the necessities of the case," the report stated:

"To sum up, the recommendations are these—(1) Federal legislation which shall (a) unequivocally declare that agreements for the co-operative development and operation of single pools are not in violation of the Federal anti-trust laws, and (b) permit, under suitable safeguards, the making in times of over-production of agreements between oil producers for the curtailment of production. ... (2) Similar legislation by the various oil-producing States. (3) Immediate further study into the matter of the waste of natural gas, in order that legislation may be formulated which will forbid such waste as fully as may be done without working injustice and unreasonable hardship. (4) Legislation by Congress granting the Secretary of the Interior authority to join and to

permit lessees from the Government to join in agreements for the co-operative development and operation of single pools. (5) The passage by Congress of the legislation heretofore recommended to it by the Secretary of the Interior, removing the existing mandate upon him to offer for lease annually, regardless of conditions, 100,000 acres of Osage Indian lands."[258]

All debate regarding oil conservation comes soon or late to the question of Government regulation. Has the Government any such power ?

"The power of the Federal Government to regulate oil production is doubtless limited to its own lands, unless the national defence is imperilled by waste or exhaustion of the oil supply," according to the 1926 report of the Conservation Board.[259]

Former Secretary of State Hughes, acting as counsel for the American Petroleum Institute at the Board hearings May 27, 1926, argued that the Federal Government lacked authority to control oil production within the States, even under Article I of the Constitution, empowering Congress to provide for the common defence and general welfare. Mr. Hughes, a former president of the American Bar Association and former justice of the United States Supreme Court, quoted constitutional authorities and Supreme Court decisions to prove his contention that: "The Government of the United States is one of enumerated powers and is not at liberty to control the internal affairs of the States respectively, such as production within the States, through assertion by Congress of a desire to provide for a common defence or to promote the general welfare. This is too elementary to require discussion and it is impossible to believe that the legal advisers of the Board will suggest that it proceed on any different view."[260]

As an alternative to alleged unconstitutional governmental control, Mr. Hughes suggested that the Government achieve conservation by placing restrictions on public lands and, if necessary, by purchasing private oil lands. He too repeated the favourite plea of the private companies that

the Government "lessen restrictions upon combinations in the conducting of interstate commerce," that is, modify the antitrust laws.

From the Hughes brief it appears that Congress has power without a popular referendum to conscript lives for war, but has no authority to conserve oil resources to prevent war or to provide the conscripts with an essential defence weapon. In advising the Government as a conservation measure to buy oil lands, Mr. Hughes overlooked the fact that most of the petroleum reserves are already exhausted and failed to explain whether the private companies would be willing to accept a fair price for remaining reserves which the Government may some day be forced to acquire.

Opposition of majority groups within the Republican and Democratic Parties to governmental control would seem to be sufficient guarantee to the oil companies that Washington Administrations, within the next decade at least, will not be responsible for any major interference with the industry. Unless there is war.

237. *Annals of the American Academy of Political Science*, May 1920, p. 123.

238. See Appendix A.

239. Federal Oil Conservation Board, *Report, Part I, September 1926*, pp. 5-6.

240. Ibid., p. 1.

241. Federal Oil Conservation Board, *Public Hearing, May 27, 1926*, p. 43.

242. Federal Oil Conservation Board, *Report, Part I, September 1926*, p. 9.

243. Federal Oil Conservation Board, *Public Hearing, May 27, 1926*, pp. 2-7.

244. New York *Wall Street Journal*, April 10, 1928.

245. Tulsa *Oil and Gas Journal*, Supplement Dec. 1, 1927, *The Oil Industry's Answer Today*, p. 33.

246. Federal Oil Commission Board, *Report, Past I, September 1926*, p. 13.

247. Ibid., p. 24.

248. 68th Congress, 1st Session, Senate Document No. 97, pp. 3-46.

249. New York *Times*, Dec. 5, 1927.

250. Federal Trade Commission, *Prices, Profits and Competition in the Petroleum Industry*, Dec. 12, 1927, p. 77.

251. New York *Times*, Dec. 18, 1927.

252. New York *Wall Street Journal*, Jan. 5, 1928.

253. New York *Times*, March 28, 1928.

254. Federal Trade Commission, *Prices, Profits and Competition, supra*, p. 23.

255. New York *Times*, Dec. 9, 1927.

256. Tulsa *Oil and Gas Journal*, Supplement Dec. 1, 1927.

257. New York *Wall Street Journal*, Nov. 18, 1927.

258. Washington *United States Daily*, Feb. 6, 1928.

259. Federal Oil Conservation Board, *Report, Part I, September 1926*, p. 15.

260. Federal Oil Conservation Board, *Public Hearing, May 27, 1926*, p. 18.

CHAPTER FOURTEEN
We Decide to Go On Fighting

THE oil problem of the United States is acute. Industry and the army and navy are dependent on adequate future reserves. The demand is increasing. The supply is decreasing. Domestic resources under a competitive and wasteful system are being rapidly exhausted. Basic conservation is blocked by $11,000,000,000 of private capital controlling the industry. The Federal Government is not disposed to force drastic reforms upon private industry, and its constitutional power to do so is questioned. In the future the United States must depend increasingly upon foreign sources for essential commercial and military-naval supplies.

American acquisition of foreign reserves is blocked in many places by Great Britain. The British have been more successful than Americans in grabbing foreign fields. The British Government virtually excludes Americans from productive areas of the Empire. The British dominate the world's remaining supply. They are conserving their reserve, while helping to drain American pools.

This situation produces a basic conflict between American and British companies and between the Washington and London Governments. That conflict is intensified by British Government ownership and direction of a company which is reaching out for territories flanking the Panama Canal. Oil is also drawing the Washington Government into dangerous disputes with Latin American, European, and Asiatic countries over property rights. But these manifold conflicts converge in the struggle between the United States and Britain over the world's limited petroleum reserve as a determining weapon in their rivalry for commercial and naval supremacy.

In retaliation for Great Britain's policy and position there is a growing demand that British companies be excluded from American fields.

Already there are laws excluding foreign companies from American Government land's. But British penetration increases.

Discussing the unusual expansion in 1927 of the four large oil groups operating in the United States, the *Wall Street Journal* stated: "With its usual foresight, the Royal Dutch-Shell group has been in the forefront of expansion. Through subsidiaries it financed, during 1927, $105,000,000 new money in this country at an average cost of around 5 per cent on long-term basis. All but $25,000,000 was for its American subsidiary, Shell Union Oil Company, so its integration efforts have been centred in the United States. Royal Dutch extended its pipe-line from St. Louis to Chicago, completed a modern refinery there and started to develop adjacent markets intensively. It has taken a big position in west Texas with gathering lines to radiate to numerous fields, tying into a trunk-line to pipe oil all the way into Chicago. Some $30,000,000 of new money is to be used for pipe-line development."[261] In the period 1923-27 the network of trunk pipe-lines controlled by Dutch-Shell here is understood to have increased from less than 1,000 miles to 2,064 miles. Among its 1927 acquisitions was a 600-acre terminal on the Houston Ship Channel.

Dutch-Shell's 1926 annual report showed that 35 per cent of its total world production came from the United States.[262] This was a nominal decrease from 40 per cent in 1925, explained by the company's increased production in Venezuela. But actual Deterding production here rose in 1926, and further in 1927 to an acknowledged total of 42,300,000 barrels.

Dutch-Shell (Shell Union Oil and subsidiaries) led all other companies in production in the United States in 1924 and 1925, and was third in 1926, according to the Federal Trade Commission oil report of 1927.

As we have seen, Dutch-Shell in the two and a half year period ending June 30, 1926, increased its land holdings in this country over 500 per cent, acquiring in that time 1,352,643 acres mostly in unproven lands, according to the same authority. With a total acreage of 1,665,402, Dutch-Shell was the largest American land-owner in 1926 excepting

only Standard of New Jersey, Gulf, and Texas. These production and ownership statistics for Dutch-Shell are based only on holdings reported to the Commission. No authoritative data are available for the increase in Dutch-Shell oil lands in the United States since June 30, 1926.

Foreign-controlled producing companies (chiefly Dutch-Shell) held 13.4 per cent of the total reported proven and unproven oil lands in June 1926, compared with 51 per cent held by Standard companies and 35.6 by Independents, according to the Commission. Concerning Dutch-Shell production, the Commission said:

"In 1924 and 1925 the Shell Union Oil Corporation, controlled by the Royal Dutch-Shell combination, ranked first among all of the oil-producing companies of the country and in 1926 it was third. Its total production exceeded 40,000,000 barrels in each of those years. Its producing subsidiary and affiliated companies were the Shell Oil Company of California, the Roxana Petroleum Corporation, the Wolverine Oil Company and the Comar Oil Company. The Comar Oil Company is owned jointly by the Roxana Petroleum Corporation and the Marland Oil Company and it is operated by the Roxana."[263]

The importance of so-called unproven lands, of which Dutch-Shell acquired 1,349,320 acres in the two and a half years ending June 30, 1926, was stressed by the Commission: "The holdings of unproven acreage indicate the activity of producing companies in attempting to discover new oil reserves. ... The holdings of certain companies lie largely in oil fields that have been producing for many years, while other companies have most of their acreage in the newer fields. Consequently the relative importance of different producing companies cannot be determined by the size of their holdings of proven oil lands. The existence of oil under unproven lands can be determined only by drilling oil wells. Many of the present highly productive oil pools were tested in the past and considered barren of oil, only to be drilled to a much greater depth at a later date and found to be highly productive."

Immediately following Standard's published attacks on Dutch-Shell in connexion with Russian oil and the Indian sales strife, the Washington Government struck at the British trust. Secretary Wilbur appointed a special board of admirals to investigate how much United States navy royalty oil Dutch-Shell was getting, and to recommend legislation to stop such sales. Rear-Admiral H.H. Rousseau, chief of the Naval Oil Office and chairman of the investigating board, on March 26, 1928, testified at hearings of the House Naval Affairs Committee on this subject. As reported by the Washington *United States Daily*:

"The only specific case of export traced, he said, was that of the Honolulu Consolidated Oil Company, of California, which has a lease on Reserve No. 2 at Buena Vista Hills. The production of this lease, he said, was between 250,000 and 300,000 barrels per month, and the Honolulu Company had made a contract with the Shell Company, of California, a subsidiary of the Royal Dutch-Shell Company, a foreign-controlled concern, for all the oil produced from this lease. This contract was the basis for the investigation now being conducted by a special board of the navy. ... He stated that a report on production of oil from Reserve Nos. 1 and 2 showed that 70 per cent of this production is used in California and neighbouring states, 15 per cent in the Atlantic States, and the remaining 15 per cent, or 300,000 barrels per month, goes into the export trade. ...

"Acting-Chairman Britten asked Admiral Rousseau his views on the economic situation created when Great Britain, a year ago, sent the price of rubber sky-high. He asked:

"'Why did the United States not counter by raising our petroleum prices, in view of the fact that we produce 72 per cent of the world production?'

" `I think that's what our oil men want,' Admiral Rousseau replied."[264]

Army and navy officers are thoroughly alarmed by the prospect of inadequate supplies in event of war. They say Germany's defeat in the Great War was largely due to oil shortage. They quote Premier

Clemenceau's appeal to President Wilson for American oil in 1917: "The safety of the Allied nations is in the balance?" They repeat the dictum of Lord Curzon: "The Allies floated to victory on a wave of oil."[265]

President Coolidge reflected this alarm in his letter of December 19, 1924, constituting the Conservation Board. "It is even probable," he said, "that the supremacy of nations may be determined by the possession of available petroleum and its products."[266]

Mr. Henry L. Doherty, who characterized himself as "the only member of the American Petroleum Institute who did not go on record that we had an abundance of petroleum," testified before the Conservation Board May 27, 1926: "If we were to get into another war within three years, there is no assurance that we would have the petroleum necessary to carry us through that war without embarrassment."[267] This large "Independent" producer described oil as "our most important munition of war," and the only one "that can't be conserved by a mere change of laws." He expressed particular concern that helium gas, an important war material, is wasted under the American system of producing natural gas. "The United States is the only country which possesses enormous quantities of helium gas," he pointed out.

Following President Coolidge's suggestion, the Conservation Board, which includes the War and Navy Secretaries, is devoting much time to the study of defence requirements. Confidential reports made by the Board cannot be quoted. But the nature of those studies is indicated by the Board's preliminary public report:

"Under its constitutional power to provide for the common defence, the Federal Government should continue to make and execute plans for an adequate supply of petroleum for all military and naval needs of the future. Tank storage sufficient to meet initial demand should be built and maintained intact against war-time emergency. Underground reserves should be preserved to supplement the commercial supply as the next line of defence, and in the administration of these reserves of oil

in the ground which form `an important part of the national insurance,' future security, not present economy, should be the sole guiding principle.

"Current peace-time requirements of those branches of the Government responsible for the national defence are approximately 20,000,000 barrels of petroleum products a year. These requirements are adequately provided for under the present normal rate of production. In case of war, the national defence requirements would, of course, immediately increase many-fold. This larger quantity would include the direct requirements, that is, the products actually used by the agencies of the Government engaged in national defence operations; and the indirect requirements—the amount which will be needed industrially to carry out the munition program, or other similar programs of these agencies.

"The production from oil wells within the boundaries of the United States at present is in excess of the estimated maximum requirements for national defence in time of war.

"It is barely possible that future discoveries may reduce, or possibly entirely eliminate the need for petroleum fuels in the national defence. It is also conceivable that substitutes for mineral lubricants may be developed on a scale sufficient to meet major requirements. With the development of the Diesel engine and its adaptability to airplane and motor vehicle use, the military consumption of petroleum as fuel will be reduced per horse-power. ...

"The war-time oil requirements of the navy in any overseas campaign would probably include the major portion of the whole deep-water tonnage under the United States flag. The increasing use of internal combustion engine-drives on commercial carriers makes liquid fuel more and more necessary for war-time water transport. The logistic services of the army and many of its combat weapons, such as tanks, tractor-drawn artillery, and airplanes, are dependent upon petroleum products for fuel and lubrication. Should the oil supply accessible to the

United States become exhausted and no satisfactory liquid substitute be developed, it would be necessary to resort to coal for propulsion.

"Our entire war-time reserve should not be in the form of refined products placed in tanks, for two reasons. First of all, the future needs of the army and navy for petroleum products may be in a ratio quite different from that of present use, and in view of the natural tendency of gasoline or even crude petroleum to waste when held in storage, a better policy is considered to be the storage of the higher grades of fuel oil or topped crude, from which the needed products could be derived.

"Further, it is important that there should be an underground reserve in the event that our commercial supply becomes exhausted before that of other nations. This underground reserve should obviously not be drawn upon unless and until other sources become insufficient."[268]

Defence requirements, coupled with increasing industrial dependence upon petroleum products, put this Cabinet Board behind the State Department's support of Standard and other American companies in their struggle against the British Government and companies for foreign reserves. Its report stated:

"While the production of oil upon our own territory is obviously of first importance, yet in failure of adequate supplies the imports of oil are of vast amount. The present imports from Latin American fields amount to about 62,000.000 barrels annually of crude oil, against which we export about 94,000,000 barrels of products. The fields of Mexico and South America are of large yield and much promising geologic oil structure is as yet undrilled.

"That our companies should vigorously acquire and explore such fields is of first importance, not only as a source of future supply, but supply under control of our own citizens. Our experience with the exploitation of our consumers by foreign-controlled sources of rubber, nitrate, potash, and other raw materials should be sufficient warning as to what

we may expect if we shall become dependent upon foreign nations for our oil supplies."[269]

President Coolidge in his United Press address April 25, 1927, re-emphasized this Government's policy of supporting private companies in the acquisition of foreign oil fields.

"Our country consumes vast quantities of oil and gasoline in its use of automobiles, gas engines, and oil-burning furnaces," he said. "If these products are to be kept within a reasonable price, which is very important to a great body of our citizens, our people who go abroad to develop new fields and to increase the supply ought to have the encouragement and support of our Government. ... The person and property of a citizen are a part of the general domain of the Nation, even when abroad. On the other hand, there is a distinct and binding obligation on the part of self-respecting governments to afford protection to the persons and property of their citizens, wherever they may be."[270]

The record of American oil diplomacy during the last decade shows that President Coolidge and his Conservation Board enunciated no new policy. Belligerent support of American oil companies abroad by the Wilson, Harding, and Coolidge Administrations indicates this is conceived as a fundamental and continuing policy.

Not that this diplomacy has accomplished much. Perhaps it cannot. Maybe the United States is "too late" as the British officials boast. Many neutral observers are of that opinion.

"It seems little likely that the Americans will ever catch up the lead thus established by their British cousins," Anton Mohr wrote in 1925. "Now that it is too late, they realize the weakness of their diplomacy, and also that they have too long allowed themselves to be blinded by the splendid sources of supply in their own country, with the result that they have omitted to take timely steps to secure control of foreign petroleum fields, and, through them, control of the world's future production of oil."[271] Perhaps, as a result of what a Fleet Street scribe calls "determined but

unostentatious enterprise in many directions," Great Britain can now "contemplate with equanimity" the oil battles of the future.

But if the American Government and companies are beaten, they do not know it. The struggle continues, and will continue. In Mexico there is only a temporary lull. In Central America our veiled exclusion policy is maintained with difficulty against native and British opposition. The London Government, through the Colombian concession plan, manoeuvres for strategic position dominating the Panama Canal. Hostile competition increases in Venezuela. The Mosul peace is an uneasy truce. The struggle in north Persia grows, with a Yankee named oil adviser to the Government and hatred flaming against the British. In Russia anything may happen. The sales battle between Standard and allied British companies in India is but part of attempted American penetration behind the Empire's lines from Suez to Singapore. The front extends around the world.

"The exploitation of petroleum has become controlled by companies sufficiently powerful to establish their own intelligence branches and sufficiently influential to advise their governments on questions of international policy; for their interests and the interests of the nation as a whole roughly coincide," said Sir Thomas H. Holland, of British oil fame, in a recent article on "Conditions Affecting the Petroleum Prospects of the Empire."[272]

At first it was chiefly commercial rivalry between companies. Later the London Government was involved, then Washington. Now the British and American peoples are being aroused. In this country the old anti-trust crusade against Standard, and the Fall-Doheny-Sinclair scandals, put petroleum in bad odour. The public has been in no mood to champion the cause of any oil company at home or abroad. But this sentiment is changing.

The danger point will be reached when near-shortage drives prices upward, and American automobile-owners are told the British have cornered most of the world supply. Secretary Hoover's recent anti-

British campaign because of the rubber monopoly,[273] and the Administration's publicity drive against Great Britain during the Geneva Naval Conference, show how it is done. What will happen when the enraged force of public opinion is added to the commercial motives of the oil companies and the defence incentives of the Government? Then the Ku Kluxers and Mayor Thompsons may find a hate crusade crying for their "hundred per cent" leadership. Then all the other Anglo-American economic and political conflicts—real and imagined—can be brought out and magnified.

If by ill fortune such a popular movement coincides with the anticipated scrapping of the Washington Naval Treaty, the international situation will be grave. "The possibility is not remote of there being a new world tragedy over the petroleum dispute," says General Obregon.[274]

The danger cannot be removed by denying its existence. Peace cannot be maintained by repeating the lie that "war between Great Britain and the United States is impossible."

War is possible. War is probable—unless the two empires seek through mutual sacrifice to reconcile their many conflicting interests. This would involve sharing raw materials and markets, and dividing sea supremacy, without violating the rights of weaker nations. If some such miracle of diplomacy is achieved oil may cease to be an international explosive.

261. New York *Wall Street Journal*, Jan. 5, 1928.

262. London *Times*, June 9, 1927.

263. Federal Trade Commission, *Prices, Profits, and Competition, supra*, p. 30.

264. Washington *United States Daily*, March 27, 1928.

265. Cf., Chap. II.

266. Federal Oil Conservation Board, *Report, Part I, September 1926*, p. 1.

267. Federal Oil Conservation Board, *Public Hearing, May 27, 1926*, pp. 25 ff.

268. Federal Oil Conservation Board, *Report, Part I, September 1926*, pp. 22-24.

269. Ibid., p. 12.

270. New York *Times*, April 26, 1927.

271. Mohr, *supra*, p. 219.

272. London *Journal of the Institution of Petroleum Technologists*, October 1927.

273. Cf., Note No. 6.

274. New York *Times*, Nov. 28, 1927.